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LJ HOOKER'S LEGACY:

NEW MARKETS FOR PARISIAN

Donald E. Hess
President
Parisian, Inc.

SECOND CLASS

$79.00 A YEAR (USA)

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JUNE SALES CAST DOUBT ON RECESSION'S END

WEAK SHOWING FOR MANY TOP RETAILERS

Just when you thought it was safe to predict the end of the recession, along comes June retail sales results to put a damper on everything.

After a strong showing in May, economists had been expecting sales in June to show clear signs that the recession was over. Instead, sales dipped two-tenths of a percent, according to the Commerce Department, raising fresh doubts about the durability of the recovery.

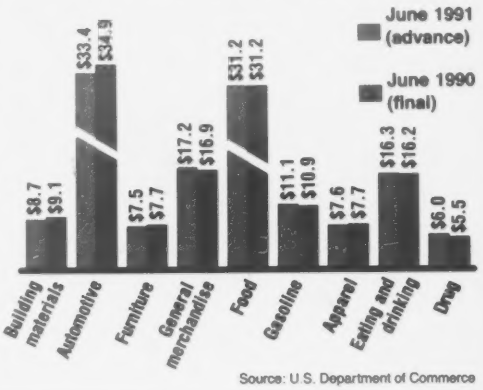
Wal-Mart, the nation's largest retailer, continued its breathtaking advance with an overall sales gain of 34% and a same-store gain of 8%. For most large retailers, however, same-store sales were down or nearly flat.

Joseph A. Antonini, chairman of Kmart, suggested that the unusually warm weather in May may have taken some of the luster out of June.

"In May, aided by ideal weather conditions in the East and Midwest, sales were strong, rising 8.5% on a comparable-store basis," he said. "Clearly, this strength in May borrowed from June business."

JUNE SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	June '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,489,000	+34.0	+ 8.0	$16,263,000	+37.0	+11.0
Kmart	3,286,761	+ 6.8	+ 2.2	13,671,303	+ 8.9	N/R
Sears	3,161,534	− 2.9	− 3.8	13,288,687	− 2.1	− 2.7
Penney	1,321,000	− 6.6	− 7.3	5,905,000	− 3.2	− 4.5
Dayton Hudson	1,380,000	+ 9.3	+ 2.3	5,730,000	+10.8	+ 1.2
May	917,600	+ 6.1	− 2.0	4,032,600	+ 7.3	− 0.9
Melville[1]	875,726	+19.0	N/C	4,461,824	+21.0	+ 0.7
Walgreen[5]	542,890	+ 9.6	+ 5.7	3,312,233	+11.2	+ 7.3
Woolworth	495,000	+ 4.4	− 0.6	2,169,000	+ 3.3	− 1.2
The Limited	537,100	+20.0	+ 8.0	2,261,000	+18.0	+ 4.0
Mercantile	199,267	+ 3.4	+ 1.0	915,499	+ 5.3	+ 2.7
Circuit City[2]	203,500	+11.0	− 7.0	N/R	N/R	N/R
The Gap	205,000	+23.0	+ 7.0	860,000	+24.0	+ 8.0
Rose's	102,929	N/R	− 6.4	569,497	N/R	− 0.8
Neiman-Marcus Group[3]	144,300	+ 1.2	− 4.2	1,625,900	+ 4.9	− 0.8
Venture Stores	128,000	+ 5.5	+ 1.7	557,100	+ 9.8	+ 5.6
Edison Bros.	119,600	+17.7	N/R	520,600	+20.1	N/R
Jamesway	86,787	−12.0	− 8.0	330,215	− 8.0	− 2.0
Charming Shoppes	91,900	+ 5.0	− 3.0	409,000	+18.0	+10.0
Ross	88,000	+21.0	+ 4.0	361,000	+19.0	+ 3.0
Dollar General	51,500	+10.1	+ 5.4	260,900	+12.1	+ 7.8
Best Buy[4]	69,000	+25.0	+ 8.0	235,000	+30.0	+ 9.0
Gottschalks	26,800	+11.5	+ 8.1	112,600	+18.6	+ 7.8
Claire's	22,911	+11.0	− 4.0	97,214	+ 7.0	− 8.0

[1]fiscal year ends Dec. 31 [2]fiscal year ends Feb. 28 [3]fiscal year ends July 31 [4]fiscal year ends Mar. 31 [5]fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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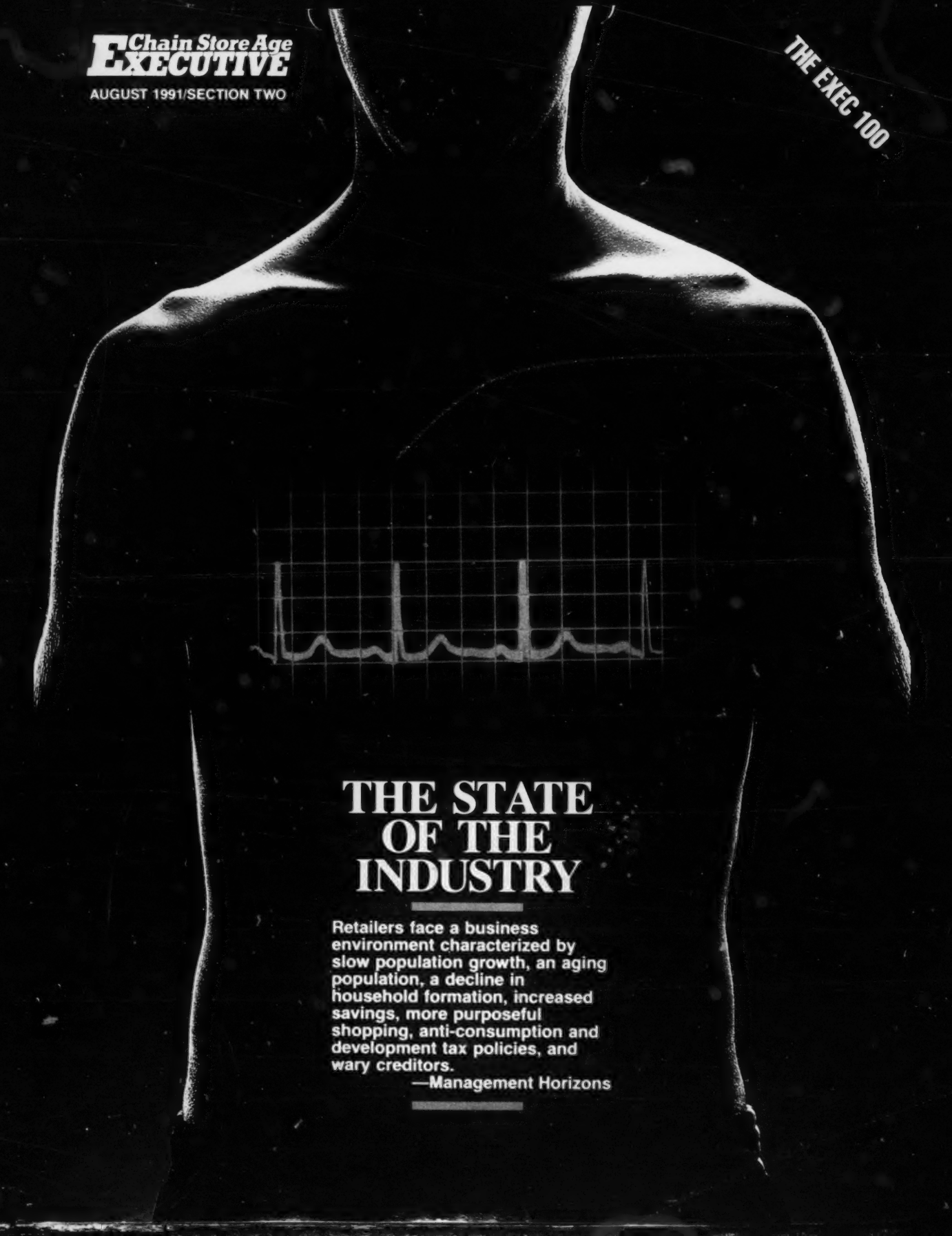
THE EXEC 100



THE STATE OF THE INDUSTRY

Retailers face a business environment characterized by slow population growth, an aging population, a decline in household formation, increased savings, more purposeful shopping, anti-consumption and development tax policies, and wary creditors.

—Management Horizons

ACKNOWLEDGMENT

This special report on the State of the Retail Industry was prepared by Management Horizons and Chain Store Age Executive *and is exclusively sponsored by MasterCard International. Information in the furnished tables come from company annual reports and Management Horizons/*Chain Store Age Executive *estimates. While we believe the data to be reliable, no representations are made to the accuracy thereof.* Chain Store Age Executive, *Management Horizons and MasterCard International assume no responsibility for any errors, whether of omission or commission.*

Management Horizons Division of Price Waterhouse is the premier worldwide management consulting and market research firm specializing in the retailing and consumer goods distribution industries. A recognized authority in market strategy analysis and planning, retail merchandising and operations strategies, and retail growth and expansion strategies, Management Horizons is also a leader in strategic informations systems planning, development, integration and implementation.

Headquartered in Columbus, Ohio, since its founding in 1968, with offices in Dallas, New York, Los Angeles and Toronto, as well as an affiliate company headquartered in London, England (Management Horizons Holdings, Ltd.), the company serves various clients throughout the world. For more information call (614) 764-9555.

MasterCard International Incorporated is a membership association of over 29,000 financial institutions. With more than 89 million credit cards in the United States and more than 163 million worldwide, MasterCard provides unsurpassed acceptance at over 9 million retail locations around the globe. MasterCard is the most recognized brand name in the U.S. financial services industry and has become a preferred means of payment among consumers. Worldwide MasterCard volume in 1990 reached $200 billion, and retail purchases accounted for almost $82 billion in U.S. sales.

The convenience and payment flexibility provided by MasterCard cards have resulted in a significant customer base for U.S. retailers. And to increase the value of the MasterCard brand to retailers, MasterCard continues to develop systems support and new programs offering them greater operational and cost efficiencies.

For more information, contact Fred P. Gore, Vice President, Acquirer Relations, MasterCard International, 888 Seventh Avenue, N.Y., N.Y., 10106, (212) 649-5241.

Chain Store Age Executive is the leading publication serving retail headquarters management. A monthly newsmagazine, *Chain Store Age Executive* reports and analyzes trends and strategies in the following areas:

- Corporate strategies
- Operations
- Credit
- Finance
- EDP/MIS/POS
- Communications
- Security
- Marketing
- Store Design/Visual Merchandising
- Store Construction
- Physical Supports
- Human Resources
- Logistics/Distribution
- Leasing
- Shopping Center Development

Chain Store Age Executive has been published since 1925. Its readers include chain headquarters decision makers from department stores, discount stores, specialty stores, supermarkets, convenience stores, variety stores, general merchandise stores, drug stores, home centers and hardware chains and non-store retailers as well as shopping center owners and developers.

For more information on *Chain Store Age Executive*, contact John S. Rapuzzi, Vice President/Publisher, 425 Park Avenue, New York, N.Y. 10022, (212) 756-5253.

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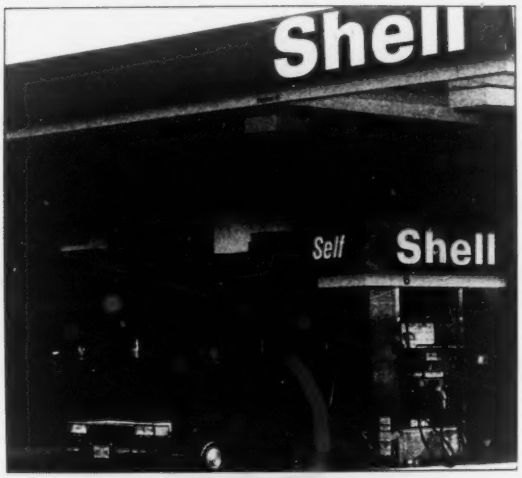

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EXEC 100

Company/ Headquarters/ Main Retail Segments	1990 Revenues (000)	1989 Revenues (000)	1990 Profits (000)	1989 Profits (000)	Stores 1990 *1989*	Comments
1. **Wal-Mart** Bentonville, Ark. (DS,WC)	$32,601,594	$25,810,656	$1,291,024	$1,075,900	1,721 *1,525*	Wal-Mart leapfrogged over Sears and Kmart to become the number one chain in volume in the U.S. This year it will open about 150 discount stores and 65 Sam's Clubs.
2. **Kmart** Troy, Mich. (DS,HC,WC,HS,DR)	32,070,000	29,533,000	756,000	323,000	4,180 *4,259*	Kmart is in the middle of a program to refurbish all its stores plus opening larger units ranging from 96,000 sq. ft. to 104,000 sq. ft.
3. **Sears, Roebuck** Chicago (GM,HS,AS,C)	31,986,000	31,599,000	257,400	646,900	1,765 *1,731*	The chain plans to open 30 stores this year. It is also taking steps to revitalize its sagging catalog operation.
4. **American Stores** Salt Lake City (S,DR)	22,155,000	22,004,154	182,387	118,129	1,848 *1,894*	Company is embarked on a strategy to prune itself down to a size where it can be well managed and maintained.
5. **Kroger Co.** Cincinnati (S)	20,260,974	19,103,671	82,380	(72,722)	2,214 *2,190*	The company has rebounded from 1989, when there was a one-time charge of $56.5 million from the write-off of costs related to Kroger's initial restructuring credit agreement.
6. **J.C. Penney** Dallas (D,C,DR)	16,365,000	16,103,000	577,000	802,000	1,799 *1,799*	Nearly 30% of capital expenditures are earmarked for existing store improvements each year over the next five years, amounting to a total of about $1 billion.
7. **Safeway Stores** Oakland, Calif. (S)	14,873,600	14,324,600	87,100	2,500	1,121 *1,117*	Is adding more expanded delis with Chinese kitchens and other takeout foods to lure shoppers looking for lower-cost alternatives to restaurant meals.
8. **Dayton Hudson** Minneapolis (DS,D)	14,739,000	13,644,000	412,000	410,000	708 *657*	The company plans to open six Target Greatland stores, 40-45 Target stores and 15-20 Mervyn's stores this year.
9. **A&P** Montvale, N.J. (S)	11,390,943	11,147,997	150,954	146,698	1,275 *1,215*	A&P is moving toward maximizing purchasing efficiency through the centralized procurement of major grocery categories.
10. **May** St. Louis (D,SH)	10,035,000	9,336,000	500,000	515,000	3,291 *3,034*	May plans to add 15 department stores and 260 net Payless ShoeSource stores as part of its $600 million capital investment plan. Eleven department stores will be remodeled.
11. **Woolworth** New York (SH,V,HS,AS)	9,789,000	8,820,000	317,000	329,000	8,619 *8,074*	The company plans capital spending of $421 million in 1991. More than 60% of that spending will be used to open a total of 827 stores and to refurbish many existing stores.
12. **Winn-Dixie Stores** Jacksonville, Fla. (S)	9,744,494	9,151,145	152,530	134,545	1,217 *1,229*	During 1990, the company installed minicomputers in 425 stores as part of a 3-year automation program.
13. **Melville** Rye, N.Y. (AS,SH,HS,DR)	8,686,765	7,553,971	664,203	660,883	7,754 *6,930*	Acquisition of People's Drug is expected to complement CVS, while Circus World purchase has been merged into Kay-Bee.
14. **Southland Corporation** Dallas (CV)	8,347,700	8,274,900	(276,600)	(1,306,900)	6,455 *6,632*	Despite its LBO, the company remains the convenience store industry leader in number of stores, average daily customer count per store and average daily merchandise sales per store.
15. **Albertsons** Boise, Idaho (S)	8,218,562	7,422,663	233,774	196,551	531 *523*	Company has developed a new interior decor for new and remodeled stores, featuring a muted color scheme of burgundy, gray and white.
16. **R.H. Macy** New York (D)	7,266,772	6,974,141	(215,278)	(53,651)	149 *149*	The company has announced a bullish five-year program in profits and expansion plans.
17. **Campeau** Toronto, Canada (D)	7,137,428	7,573,530	(271,446)	(2,429,119)	246 *260*	Federated/Allied stores anticipate emerging from Chapter 11 and going public in 1992.
18. **Supermarkets General Holdings** Carteret, N.J. (S,HC)	6,125,963	6,298,748	(41,468)	(76,525)	288 *254*	The LBO'd company blames its decline in sales on the severity of the depression in the Northeast.
19. **Walgreen Co.** Deerfield, Ill. (DR)	6,047,494	5,380,133	174,577	154,242	1,564 *1,484*	Walgreens stays on the fast track as it completes 16th consecutive year of record sales and earnings. Expands drive-through; POS scanners chain-wide by year's end.

* = estimate ** = Figures include franchised company-owned stores NA = Not available ( ) = Loss

D = Department DS = Discount C = Catalog GM = General merchandise V = Variety
HS = Hardline specialty AS = Apparel specialty DR = Drug store HC = Home center S = Supermarket
SH = Shoe store CV = Convenience store WC = Warehouse wholesale club CS = Catalog showroom

Source: Company reports/*Chain Store Age Executive* research

EXEC 100

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20. Publix Super Markets Lakeland, Fla. (S)	$ 5,800,000	$ 5,300,000	NA	NA	375 *367*	The company continues to invest heavily in technology and in new and renovated stores.
21. Food Lion Salisbury, N.C. (S)	5,584,410	4,717,066	172,571	139,775	778 *663*	Has major plans for expansion in Florida, Pennsylvania and Texas.
22. Toys "R" Us Paramus, N.J. (HS,AS)	5,510,000	4,788,000	326,000	321,000	615 *541*	The firm continues to pioneer European expansion, with profit margins in some stores in the U.K. and Germany exceeding their US counterparts.
23. Price San Diego (WC)	5,412,320	5,011,591	125,383	117,035	51 *47*	Expects to spend $200 million for capital expenditures in fiscal 1991, including $8.4 million for the acquisitions of partnership interests in joint ventures.
24. Vons Cos. El Monte, Calif. (S)	5,333,900	5,220,700	82,200	(25,100)	320 *328*	Vons has made progress reducing its debt and leverage in the wake of its acquisition of 150 underperforming Safeway units.
25. The Limited Columbus, Ohio (AS,C)	5,253,509	4,647,916	398,438	346,926	3,864 *3,382*	Management hopes a new "back to basics" philosophy at Limited stores will invigorate lagging sales.
26. Montgomery Ward Chicago (GM)	5,245,000	5,070,000	153,000	151,000	343 *333*	The company has announced it is expanding its specialty catalog business, which has been a year in testing.
27. Stop & Shop Cos. Braintree, Mass. (S,DS)	4,989,877	4,636,031	2,200	(23,200)	247 *246*	Procurement and marketing activities for this LBO'd company are completely centralized. More than 213 grocery products are purchased through forward buying.
28. Tandy Corp. Ft. Worth, Texas (HS)	4,499,604	4,180,703	290,347	323,504	7,356 *7,337*	Here come the brand names, as the consumer electronics and computer stores announce they'll expand their offerings beyond Radio Shack's lines.
29. Ahold USA Parsipanny, N.J. (S)	4,413,000	4,057,000	NA	NA	341 *343*	The Dutch concern recently purchased Tops Markets in Buffalo, and expects U.S. sales of almost $6 billion in 1991.
30. Costco Kirkland, Wash. (WC)	4,049,600	2,943,400	49,200	27,000	62 *56*	Two stores opened in Massachusetts this year marked Costco's entry into the northeast. Plans call for opening six to eight more warehouses this year.
31. Home Depot Atlanta (HC)	3,815,356	2,758,535	163,428	111,954	145 *118*	Chain appears to be bucking the trend in the recession-ridden Northeast. Its new stores there are among the highest sales volumes in the company.
32. Circle K Phoenix, Ariz. (CV)	3,736,552	3,494,891	(772,869)	15,414	4,631 *4,685*	Operating under Chapter 11 bankruptcy protection, the nation's 2nd largest c-store chain is looking to sell off some assets.
33. Super Valu Minneapolis (S,DS)	3,518,120	3,186,332	98,881	87,990	198 *170*	The company continues to invest in its Cub Foods warehouse store concept, with plans for two new stores and ten remodels this year. Plans spinoff of Shopko.
34. Rite Aid Shiremanstown, Pa. (DR,HS)	3,447,486	3,172,797	107,300	102,058	2,420 *2,352*	With bribery charges against president Martin Grass dismissed, a vindicated Rite Aid posts a strong year. Plans call for 120 new stores in 1992.
35. Service Merchandise Nashville, Tenn. (CS)	3,435,037	3,307,110	60,712	71,991	346 *334*	Plans to open 15 catalog stores in '91; expects to fund future capital expenditures through cash flow from operations and temporary borrowings under a revolving credit loan.
36. Jack Eckerd Clearwater, Fla. (DR)	3,367,259	3,170,608	NA	NA	1,673 *1,630*	Five years into its leveraged buyout, Eckerd posts record sales as it makes an offer to buy Revco Drug (turned down at press time).
37. Giant Food Landover, Md. (S)	3,349,546	3,248,942	118,891	108,399	152 *149*	All of Giant's pharmacies have fax lines to make placing of prescription orders easier for doctors and patients.
38. Pacific Enterprises Los Angeles (DR,HS)	3,193,000	3,114,000	(36,000)	68,000	1,079 *1,065*	Management changes rock the retail division of Pacific Ent. as Eve Rich is appointed president of ailing Thrifty Drug. Sporting goods div. adds 10 new stores.

* = esümate ** = Figures include franchised company-owned stores NA = Not available ( ) = Loss

D = Department DS = Discount C = Catalog GM = General merchandise V = Variety
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EXEC 100

Company/ Headquarters/ Main Retail Segments	1990 Revenues (000)	1989 Revenues (000)	1990 Profits (000)	1989 Profits (000)	Stores 1990 *1989*	Comments
39. Ames **Rocky Hill, Conn. (DS)**	$ 3,109,080	$ 4,793,126	$ (793,459)	$ (228,062)	455 *690*	The company is projecting earnings before interest, taxes and Chapter 11 expenses of $21.6 million. This is below its earlier estimate of $50.8 million.
40. Meijer * **Grand Rapids, Mich. (DS,S)**	3,000,000	2,800,000	NA	NA	55 *51*	Company is shaking up Dayton market area with successful new hypermarket format.
41. Grand Union **Wayne, N.J. (S)**	2,996,572	2,916,235	40,452	37,832	307 *301*	Company is pursuing aggressive marketing strategies, including continuities and buy-one-get-one-free offers.
42. Nordstrom **Seattle (D)**	2,893,904	2,671,114	115,816	114,909	63 *59*	Plans call for opening stores in Oak Brook, Ill., Riverside, Calif., Edison, N.J., and Bethesda, Md.
43. Carter Hawley Hale **Los Angeles (D)**	2,857,819	2,787,393	(11,472)	12,420	89 *113*	Operating under Chapter 11, the company sold off Thalhimer Brothers and is consolidating its Emporium and Weinstocks divisions.
44. Lowe's **North Wilkesboro, N.C. (HC)**	2,833,108	2,650,547	71,087	74,912	309 *306*	The Gulf War hit hard in the fourth quarter, as massive numbers of service personnel left the Carolinas where 30% of Lowe's stores are located.
45. H.E. Butt **San Antonio, Texas (S)**	2,800,000	2,312,000	NA	NA	152 *150*	Chain has implemented a frequent shopper program.
46. Ralphs Grocery Co. **Compton, Calif. (S)**	2,799,100	2,556,100	(51,300)	(69,700)	150 *142*	Ralphs has combined its conventional and superstore formats to achieve economies from common advertising, administration, buying and merchandising.
47. Penn Traffic Co. **Johnstown, Pa. (S)**	2,770,875	2,699,847	(24,179)	(29,151)	519 *220*	The company's 24.3% stake in Grand Union was completely written off in 1990 for accounting purposes.
48. Fred Meyer **Portland, Ore. (DS,S)**	2,476,055	2,284,535	33,585	(6,848)	122 *125*	Rebounded from 1989, when there was an income drop from a one-time restructuring charge of $49.3 million.
49. TJX Cos. **Framingham, Mass. (AS)**	2,446,279	2,148,735	74,128	(78,275)	972 *898*	T.J. Maxx continues to set record sales and earnings, while Hit or Miss struggles.
50. Waban **Natick, Mass. (WC,HC)**	2,409,726	2,056,512	18,412	28,765	93 *81*	HomeClub sales hit $1.3 billion in 1990 and BJ's reached $1.1 billion. While BJ's shifts to a fully-paid membership, HomeClub scraps membership fees.
51. Bruno's **Birmingham, Ala. (S)**	2,394,788	2,134,098	58,099	50,235	230 *222*	Bruno's is planning to open 50 new stores and expand both its distribution centers in the next two years.
52. Mercantile **Wilmington, Del. (D)**	2,367,210	2,312,802	123,614	130,343	82 *80*	The company plans to open two stores and close one this year, two more in 1992, three in 1993 and two in 1994.
53. Circuit City **Richmond, Va. (HS)**	2,366,901	2,077,629	56,651	69,388	149 *122*	Profit decline reflects overall softness in consumer electronics market in latter half of 1990. Company entered Texas market with five stores.
54. Longs Drug Stores **Walnut Creek, Calif. (DR)**	2,333,767	2,110,574	59,622	61,294	261 *248*	Steve Roath named president/ceo of Longs following death of co-founder/chairman Joseph Long. Net earnings slip as chain cuts prices in wake of heavy competition.
55. Belk * **Charlotte, N.C. (D)**	2,250,000	2,010,000	NA	NA	355 *335*	Continues to be strong competition in the south.
56. Payless Cashways **Kansas City, Mo. (HC)**	2,226,000	2,004,000	NA	NA	195 *195*	Payless has joined Builders Square, Hechinger, Home Depot and Lowe's to spend $300,000 over the next three years to support building affordable housing.
57. U.S. Shoe **Cincinnati (AS,SH,HS)**	2,203,300	2,039,000	(27,700)	49,187	2,704 *2,535*	Restructuring charges drastically affected profits. Niche retailers Petite Sophisticate and August Max Woman showed strong results.
58. Hills **Canton, Mass. (DS)**	2,140,868	2,075,603	(273,682)	5,632	154 *214*	Operating under Chapter 11, Hills is closing 60 unprofitable stores. It says that because of various uncertainties, its existence as a going concern is threatened.

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Source: Company reports/*Chain Store Age Executive* research

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Company/ Headquarters/ Main Retail Segments	1990 Revenues (000)	1989 Revenues (000)	1990 Profits (000)	1989 Profits (000)	Stores 1990 *1989*	Comments
59. Dominick's Finer Foods * **Northlake, Ill. (S)**	$ 2,100,000	$ 1,650,000	NA	NA	99 *95*	Chicago market leader was an early beta site for VideOcart.
60. Smith's Food & Drug **Salt Lake City (S,DR)**	2,031,373	1,731,559	34,314	26,131	95 *98*	Has plans to make the Southern California market its major expansion area for the next five years.
61. Phar-Mor * **Youngstown, Ohio (DR)**	2,000,000	1,300,000	NA	NA	237 *165*	Sales reach the $2 billion mark as Phar-Mor continues rapid expansion in new markets. Deep-discounter invests in $6 million-plus satellite-based telecommunications network.
62. The Gap **San Bruno, Calif. (AS)**	1,933,780	1,586,596	144,522	97,628	1,092 *960*	Banana Republic division has begun a turnaround, and showed a profit last year.
63. Giant Eagle * **Pittsburgh (S)**	1,900,000	1,850,000	NA	NA	128 *130*	This sleeping giant, Pittsburgh's market share leader, is believed to be setting its sights on a major acquisition.
64. Revco **Twinsburg, Ohio (DR)**	1,878,134	2,489,985	(65,221)	(232,654)	1,125 *1,853*	Revco struggles to negotiate reorganization plan with creditors; turns down acquisition offer from Eckerd.
65. Hook SupeRx **Cincinnati (DR)**	1,870,000	1,730,000	NA	NA	1,118 *1,083*	New presidents appointed at SupeRx and Hook as chain steps up expansion. Brooks debuts new smaller prototype with neon-accented, fashion decor.
66. Hy-Vee Food Stores * **Chariton, Iowa (S)**	1,867,000	1,850,000	NA	NA	220 *148*	Heartland chain's sales have risen more than 35% since 1987.
67. Best Products **Richmond, Va. (CS)**	1,841,557	2,094,570	(332,968)	(53,809)	189 *194*	Since filing Chapter 11, it has closed 24 catalog showrooms and 15 jewelry stores. It projects $1.7 billion in sales this year.
68. Caldor **Norwalk, Conn. (DS)**	1,766,000	1,556,000	79,600	63,500	122 *118*	This discount chain recently went public again.
69. Brown Group **St. Louis (AS,SH)**	1,763,767	31,775	1,074,123	33,827	3,929 *4,294*	Store counts reflect sale or closure of Linen Center stores and reduction of 107 Wohl Shoe stores.
70. Neiman Marcus Group **Chestnut Hill, Mass. (D,AS)**	1,688,611	1,467,504	28,239	25,258	267 *251*	Capital expenditures for 1991 should approximate $100 million, including major remodelings of three stores and building of stores in Minneapolis and Scottsdale, Ariz.
71. Hannaford Bros. **Scarborough, Maine (S,DR)**	1,687,649	1,520,600	42,219	39,302	130 *118*	In 1990, Hannaford opened a 417,000-sq.-ft. distribution center in Schodack, N.Y. and purchased 11 stores in New Hampshire and Massachusetts from Alexander's Markets.
72. Shaw's Supermarkets * **East Bridgewater, Mass. (S)**	1,680,000	1,500,000	NA	NA	64 *61*	The venerable New England chain is owned by J. Sainsbury, London.
73. Amcena Corp. * **New York (D,HS,AS)**	1,540,000	1,495,000	NA	NA	1,442 *NA*	Amcena, a unit of a Dutch holding company, controls 11 chains including Millers Outpost, J. Byrons, Maurices/The Closet & Eastern Mountain Sports.
74. Rose's **Henderson, N.C. (DS)**	1,525,412	1,507,560	(27,761)	8,926	256 *259*	Plans call for closing 25 unprofitable stores this year.
75. McCrory **York, Pa. (V)**	1,518,400	1,382,300	(44,400)	(157,900)	1,147 *1,063*	The company will close between 95 and 105 unprofitable stores this year and five to 10 stores will be opened.
76. Sherwin Williams **Cleveland (HS)**	1,434,000	1,346,000	86,000	91,000	1,934 *1,896*	Increase in paint sales offset recession-driven weakness in other products.
77. Stater Bros. * **Colton, Calif. (S)**	1,400,000	1,260,000	NA	NA	105 *102*	Ceo Jack Brown was a winner of last year's Ernst & Young/Chain Store Age Executive Entrepreneur of the Year award.
78. Hechinger **Landover, Md. (HC)**	1,392,198	1,229,572	23,259	34,189	118 *107*	The company plans to use its Home Quarters division as its primary expansion vehicle, particularly in New England.
79. Barnes & Noble/B. Dalton * **New York (HS)**	1,300,000	1,290,000	NA	NA	1,294 *1,200*	Still an industry powerhouse.

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EXEC 100

Company/ Headquarters/ Main Retail Segments	1990 Revenues (000)	1989 Revenues (000)	1990 Profits (000)	1989 Profits (000)	Stores 1990 *1989*	Comments
80. Cullum Cos. * Dallas (S)	$ 1,300,000	$ 1,200,000	NA	NA	62 *59*	Chain is notable for its three ultra-gourmet Simon David stores in the Dallas area.
81. Raley's * Scaramento, Calif. (S)	1,300,000	1,200,000	NA	NA	61 *56*	Chain of superstores is serviced by Fleming on the food side and McKesson on the drug side.
82. Emro Marketing * Springfield, Ohio (CV)	1,287,500	1,250,000	NA	NA	1,700 *1,682*	Owned by Marathon Oil, company has video rentals in 82 states.
83. Petrie Secaucus, N.J. (AS)	1,281,845	1,257,522	2,996	32,265	1,639 *1,569*	Profits affected by Chapter 11 filing of Paul Harris. Plus size division showed steady growth, while junior stores lagged through end of the year.
84. Weis Markets Sunbury, Pa. (S)	1,271,806	1,239,272	86,773	86,429	118 *120*	Six new superstores and four enlargements will be completed in 1991.
85. Edison Bros. St. Louis (AS,SH)	1,253,600	1,073,500	59,000	56,900	2,600 *2,327*	Company is diversifying into entertainment by purchase of Time-Out and Space Port chains, and expanding its menswear by acquistion of Webster and Zeidler & Zeidler menswear chains.
86. Drug Emporium ** Columbus, Ohio (DR)	1,210,000	1,090,000	8,200	7,900	212 *193*	Deep-discounter sheds franchise image as it continues to buy back multiple franchises. Growth will be through corporate-owned stores.
87. Save Mart * Modesto, Calif. (S)	1,200,000	1,000,000	NA	NA	89 *84*	Chain has 20 stores with in-store pharmacies and 31 stores with service delis.
88. P.A. Bergner Milwaukee (D)	1,200,000	1,240,000	NA	NA	67 *66*	Has yet to reap the benefit of Carson Pirie Scott acquisition.
89. Harris Teeter Charlotte, N.C. (S)	1,164,445	1,053,467	32,212	27,444	130 *128*	Has acquired Borden's manufacturing facility in High Point, N.C., to expand its private label dairy and beverage product line.
90. Blockbuster Entertainment ** Fort Lauderdale, Fla. (HS)	1,133,150	663,475	68,654	44,152	1,582 *1,079*	Already the largest U.S. video store, Blockbuster recently announced franchises for Australia and Japan.
91. Kash n' Karry * Tampa, Fla. (CV)	1,100,000	1,100,000	NA	NA	114 *117*	Tampa's market share leader offers video cassette rentals in 60 stores.
92. Wegman's Food Markets * Rochester, N.Y. (S)	1,100,000	1,050,000	NA	NA	44 *42*	Wegman's is bracing for tougher competition from Tops Markets, which was recently acquired by Ahold USA.
93. Furr's * Lubbock, Texas (S)	1,100,000	1,200,000	NA	NA	129 *141*	West Texas market leader has auto supplies and lawn & garden equipment in all stores.
94. Schnuck Markets * Maryland Heights, Mo. (S)	1,090,000	1,050,000	NA	NA	59 *57*	The St. Louis market leader lost its founder, 69-year-old Donald Schnuck, when he died of a heart attack while addressing employees who were threatening to strike.
95. Marsh Supermarkets Yorktown, Ind. (S)	1,090,000	1,000,000	12,800	10,700	251 *243*	Company operates 171 convenience stores under the Village Pantry banner.
96. Pueblo International Pompano Beach, Fla. (S)	1,075,000	1,000,028	6,361	5,100	50 *50*	The chain's Xtra Super Food Centers are a big hit with the Hispanic population in Florida and Puerto Rico.
97. National Convenience Stores Houston (CV)	1,062,183	1,077,150	4,963	(8,858)	1,090 *1,142*	The company has developed two prototype store remodel concepts: One for the upscale market, another for the Hispanic market.
98. Riser Foods Bedford Heights, Ohio (S)	1,054,500	1,083,100	5,600	(7,000)	51 *54*	Formed from four companies in 1988, Riser turned in its first profitable year in 1990.
99. Hughes Markets * Los Angeles (S)	1,000,000	1,000,000	NA	NA	49 *48*	Only about 7% of this chain's sales are in nonfood.
100. Price Chopper Supermarkets* Schenectady, N.Y. (S)	1,000,000	865,000	NA	NA	95	A leader in the use of hand-held computers in direct-store delivery transactions.

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INTRODUCTION

Retail bankruptcy will continue to grow as the industry goes through a period of unprecedented change.

From Chaos to Consolidation: Retailing in The 1990s

Until recently, the Golden Era of retailing seemed as if it would go on forever. Retailers' "Field of Dreams" business philosophy—build it and they will come—succeeded for the first 40 years or so following World War II because demand for consumer goods consistently grew faster than supply.

The rapid growth in household formation and the extension of the American Dream of home ownership to an ever larger part of society spurred consumer demand. In addition, favorable government tax and spending policies guaranteed that consumer demand would grow unabated.

On the cost side of the business, retailers found few resource constraints to expansion. Product proliferation kept new goods coming into the stores and consumers coming back.

As the rest of the world began to develop economically, new sources for obtaining merchandise came onto the market. For retailers, that kept the cost of goods sold under control. Supplier relations were adversarial as retailers played one supplier against another.

> By 1987 the business conditions that supported the 'Field of Dreams' no longer existed. The dream had turned into a nightmare.

Expectations that growth would go on forever meant that capital was always available for store expansion.

With the entry of women and the baby boom generation into the labor force, entry level labor was always plentiful. Retailers paid workers as little as possible, accepting high turnover as one aspect of doing business.

Retailing In Crisis

But, by 1987, the business conditions that supported the "Field of Dreams" no longer existed. The dream had turned into a nightmare. All that was left for retailers to do was change or go bankrupt.

And in the past two years, a growing number of retail businesses have failed. Not just the overly indebted Federated's or Ames, but retailers who, in ordinary times, had every reason to expect that they would continue to grow and prosper.

Retail strategies fail because the business conditions upon which they are based change. Retail businesses fail because they are unable or unwill-

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ing to change the strategies that worked so well in the past, but are not working today. Past success often breeds future failure.

Retail bankruptcy will continue to grow as the industry goes through a period of unprecedented change.

Retailers now face a business environment characterized by slow population growth, an aging population, a decline in household formation, increased savings, more purposeful shopping, anti-consumption and development tax policies and wary creditors.

Demographic Winds of Change

It happens slowly. Its effects are irreversible. Everyone talks about it. No one can do anything about it. More than any single factor, demographic change, particularly the aging of the baby boom generation, will have a big impact on consumer spending in the first half of the 1990s.

As people get older, they tend to spend less of their income. The purchases they make are more planned and less impulsive. The quality of the goods they buy is higher, as are the price points.

The rapid growth in the 45- to 49-year-old group will have a dampening effect on apparel spending. While buying fewer units, this group will demand higher quality and service.

For home goods retailers, the aging of the baby boom generation points to a significant shift in the mix and volume of goods they sell. The demand for home goods will shift from meeting the needs of new households to meeting the replacement demand of existing households.

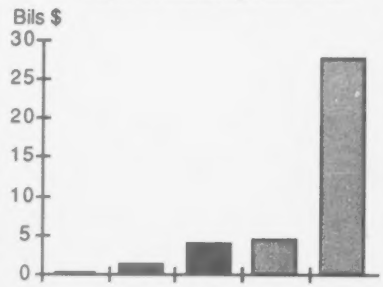
The second most important demographic change will occur among 20- to 29-year-olds. It is perhaps no coincidence that the same year that the retail profit recession began (1987), this group began to decline in numbers. This decline will accelerate through the middle of the 1990s.

Fewer 20- to 29-year-olds will make apparel retailing less fashion-oriented, changing our perceptions of what is youthful. It will also force retailers to rethink their labor force strategies. With fewer entry level workers to hire, retailers will be forced to turn to technology to run their businesses.

Fewer 20- to 29-year-olds also means that fewer new households will be formed. For home goods retailers, fewer new households means slower growth in furniture, appliance, and other home furnishings spending. More importantly, it means retailers must refocus their efforts on the same customers, rather than always looking for new ones.

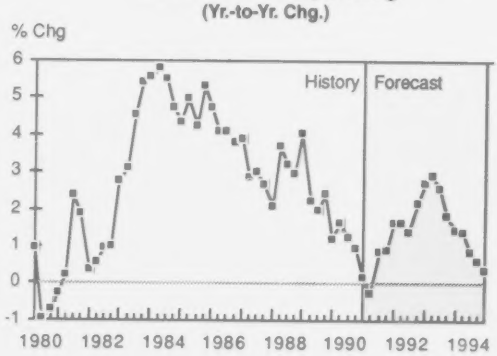
Despite all the talk about the aging of America, the number of Americans between 60 and 69 will decline sharply in the early 1990s. The decline in this age group, along with the sharp rise in the number of 45- to 49-year-olds, will have a positive impact on the nation's savings rate. The higher savings rate will reduce the impact on consumer spending of future income gains.

Sales of Bankrupt Retailers



Source: Management Horizons Division of Price Waterhouse

Real Consumer Spending
(Yr.-to-Yr. Chg.)



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Deleveraging the Consumer Balance Sheet

The consumer balance sheet will undergo a process of deleveraging in the first half of the 1990s. Consumers will buy less, use credit less frequently and save more. These changes, and the subsequent change in shopping behavior they imply, will have a significant impact on retailing.

After falling sharply in late 1990 because of fallout from the Persian Gulf crisis, real income gains will begin to rebound by mid-1991.

Employers took a preemptive approach in late 1990, laying off workers in anticipation of a weaker economy in 1991. With inventories at record low levels, any increase in consumer demand will have to be met by increases in production which could create more jobs.

Consumers' use of credit will decline sharply in the first half of the 1990s. The combination of unfavorable demographics and modest income growth will keep annual credit growth to less than 5%, down from nearly 10% growth in the 1980s.

The decline in savings during the 1980s was driven by a booming stock market and rising home prices, both of which made it less necessary for households to save. Demographics and tax policy also worked against savings.

After bottoming out in early 1987, consumer savings bounced upward, fluctuating between 4% and 5% for the past three years. That upward trend will continue through the first half of the 1990s. As a share of income, savings should rise above 6% before mid-decade.

Government Policy Turns Anti-Consumer

Until 1986, the government played a major role in encouraging consumer spending. It fashioned a tax structure that rewarded debt and penalized thrift. The deductibility of mortgage interest payments helped people buy homes. The deductibility of other consumer interest payments encouraged big ticket purchases.

Either directly or indirectly, since 1986 much of the Federal Govern-

ment's economic policy to balance the trade deficit has been aimed at reducing consumer spending as a percentage of the U.S. economy.

Reduced consumer spending results in fewer imports. At the same time, domestic manufacturers will be forced to find foreign buyers for their products. The net effect over time will be an improvement in the balance of trade. Since late 1986, the monthly U.S. trade deficit has shrunk from a high of $16.8 billion to $4.5 billion in the spring of 1991. Concurrently, consumer spending has stagnated. These tax, credit, and foreign exchange policies will remain in place until the United States runs a trade surplus on a sustained basis.

Taxes reduce spending. No one wants them. Yet, despite the tax revolt and an anti-tax President, the latter half of the 1980s were marked by numerous tax increases.

The more recent of these tax changes have been aimed at reducing consumer spending. In 1986, tax incentives for consumer spending were eliminated when the deductibility of consumer interest payments was phased out. Social Security taxes were raised every year between 1985 and 1990 to the point where, for many households, they exceeded personal income taxes.

More recently, excise taxes on gasoline, tobacco, alcohol and luxury goods were nudged upward.

One thing is certain. With the Federal budget deficit rising towards $300 billion, and the cost of the savings and loan bailout going up, more taxes will be needed, which will have to come at the expense of consumer spending.

More than any other economic factor, the value of the dollar influences the mix of economic growth. A strong dollar lifts consumer buying power while hurting the competitiveness of producers. A weak dollar does just the opposite.

The dollar has been reduced in value as part of the government's policy of trying to improve the trade imbalance. As long as the United States runs a trade deficit, the dollar will continue to decline, resulting in a steady increase in the cost of goods sold for retailers who source their goods overseas.

Nowhere has the change in Federal Government policy toward consumption been more dramatic than in the area of credit and monetary policy.

After aggressively expanding money supply and pushing interest rates down in the first half of the 1980s, the Federal Reserve Bank began to tighten credit in early 1987. Rates were raised until mid-1989. The shift toward tighter credit reflected a change in Fed policy from controlling the rate of inflation to reducing it to zero.

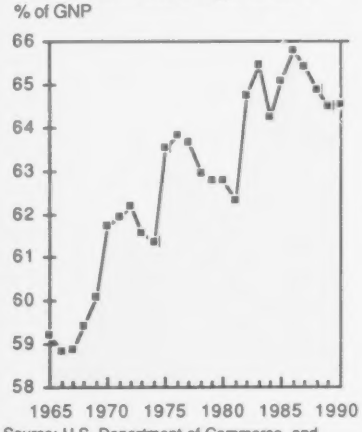
Despite a weak economy and shaky banking system, the Fed stayed the course in its monetary policy experiment until it became apparent that the economy was in a recession.

As a result of an overly restrictive monetary policy, real money supply growth declined in the second half of 1990, after showing no net growth in the previous three years. Real money supply growth tracks consumer spending better than any other single economic indicator.

With inflation for health care and other services still running at better than 5%, the Fed's inflation policy means that prices of goods at retail will have to fall in order to get an overall inflation rate of zero. Retailing is being sacrificed in the pursuit of the unachievable goal of zero inflation. Since late last fall, the Federal Reserve has eased credit policy in an attempt to jump start the economy. Reserve requirements for banks have been relaxed. The discount rate has been cut three times. Federal funds rates have been pushed lower.

The Fed's change in policy will be short lived. Once the economy is back on a growth track, the Fed will return to its task of reducing inflation by keeping credit tight.

Consumer Spending As a Percentage of GNP



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

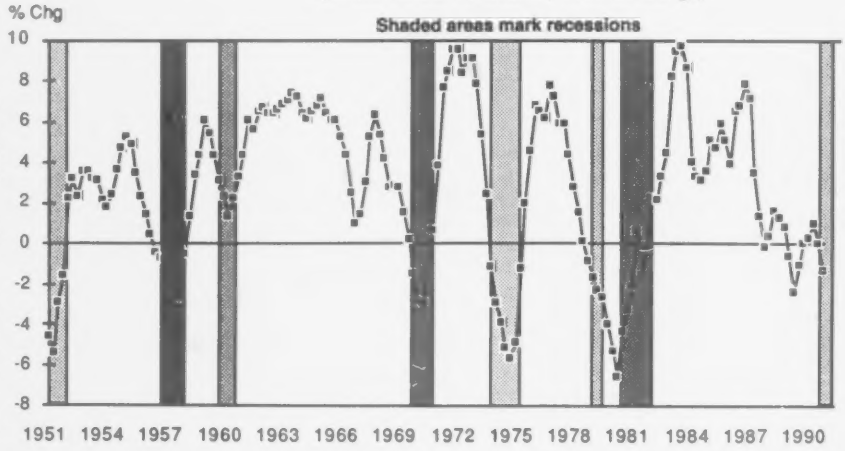
The Consumer Spending Outlook

Given these environmental changes, real gains in consumer spending during the first half of the 1990s will be small by historical comparison. Total retail sales growth in real terms is expected to average around 1.5% annually, roughly half the 3% growth

Real Money Supply

(M2/Consumer Price Index, Yr.-to-Yr. Change)

Shaded areas mark recessions



Source: U.S. Department of Treasury, and Management Horizons Division of Price Waterhouse

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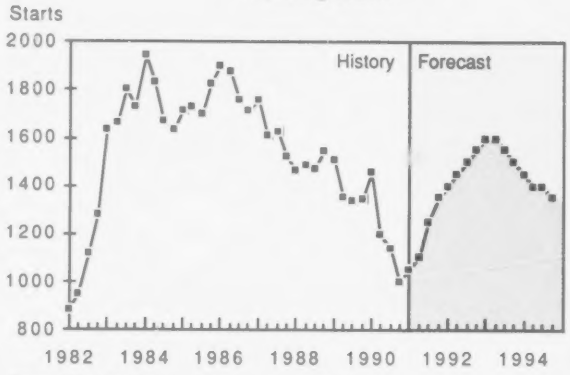
rate experienced in the 1980s.

Growth in apparel spending will be down sharply. With the aging of the baby boom generation will come a long-term decline in consumers' interest in fashion. Slower income growth, the primary driver of apparel spending, will also take its toll.

Compound annual sales gains for apparel stores over the next four years will average 2.5% in real terms, compared with 4.7% in the 1980s. Department store sales will rebound modestly after experiencing negative real growth in 1990 and 1991, with compound annual sales growth of 2.4% through 1994, down sharply from 5.9% real growth in the 1980s.

Housing Starts



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

High interest rates, low income growth, and the uncertainty generated by the Gulf crisis all combined to send housing starts to recession-level lows earlier this year. With an end to the Gulf War, the housing market will improve.

Although housing is more affordable today than at any time in the past decade, dismal demographics will keep future improvements in housing activity limited. However, small improvements in housing will bring about a recovery in home goods retailing in early 1992.

The generally poor outlook for the housing industry will have a dampening effect over the long term on the home goods market. The sale of appliances, consumer electronics and home improvement-related products will significantly underperform the experiences of the 1980s.

Home centers will outperform the market for hardware and home improvement merchandise, taking market share away from national mass merchandisers and discount stores. Real sales are projected to climb 2.7% annually through the middle of the decade.

Consumer electronics stores will outperform the rest of this market segment. Sales growth for this line of trade is projected to rise 7.6% per year in real terms over the next four years. However, this is modest by historical standards.

The Market for Capital

The 1980s were characterized by intense financial innovation. Much of it made economic sense, such as using junk bonds to buy oil on Wall Street. What didn't make much sense was using junk to finance takeovers in the retail industry.

Unlike the oil companies, retailers did not have excessive cash flow in the mid-1980s. But like the oil companies, they were sitting on top of assets that might not have been fully reflected in their stock price.

Unfortunately, investors mistakenly thought that the consumer spending boom would last forever and that retail profitability could expand without end. Clearly, both assumptions turned out to be wrong. Retail real estate was difficult to get rid of and the consumer spending boom was strictly ephemeral.

But before anyone could look back, tens of billions of dollars traded hands and the retail industry was rendered thoroughly indebted. Then the stock market crashed and people started saving more. The last of the baby boomers finished school and so the labor force started to grow more slowly. And retail sales started to slow down. Bankruptcy was then just around the corner for many firms.

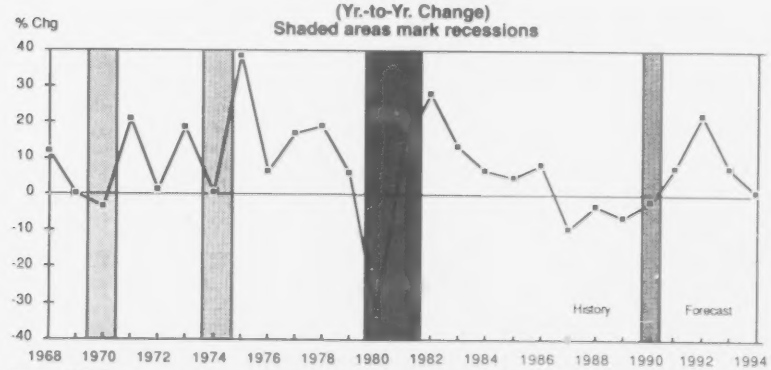
But, what ultimately killed the market for junk bonds wasn't the specter of retail bankruptcy. The junk market finally died when Congress, in 1989, told the S&Ls to dump their junk portfolios. This caused the collapse of scores of thrifts, led banks to tighten their lending standards, and returned American finance to a bygone era of conservatism.

The damage to lender confidence will not be short-lived. In the future, we are not likely to see a return to the "go go" days of the 1980s.

Debt financing will be out of style for some time to come. There will be an increased emphasis on liquidity, on healthy balance sheets, and on equity finance, particularly from foreign sources.

Mergers and acquisitions in retailing will be restricted to those that can be financed by traditional means and that make economic and strategic sense.

Retail Profitability
(Yr.-to-Yr. Change)
Shaded areas mark recessions



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Outlook for Retail Profitability

Not since the Great Depression has retailing experienced such a dismal profit perfor-

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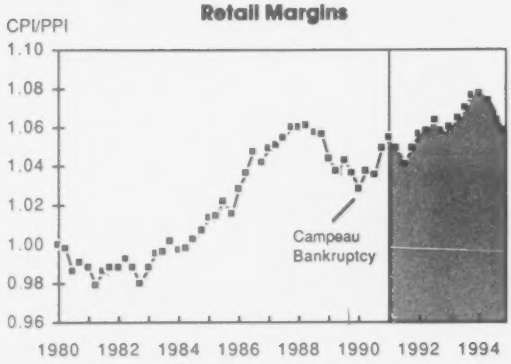
mance as it has in the past four years.

The combination of heavy inventories, rising wages, and weak demand set retail profitability up for a fall in the summer of 1987. The stock market crash made a bad situation worse. Profits fell nearly 10% for the year. And they continued to fall.

Overblown expectations and heavy promotional activity brought profits down in 1988. The Campeau bankruptcy hit the industry in late 1989, leaving profits down yet again. And then it was the crisis in the Persian Gulf that sank retail profitability for the fourth year in a row.

Retail Margins



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

For the industry as a whole, profitability gains can come only from improvements in productivity or from improvements in margins.

After peaking in early 1988, retail margins have steadily eroded. Margins were depressed by the debt-induced need of many retailers to generate cash flow through promotional activity. That promotional activity climaxed during the Christmas season of 1989, as the Campeau-owned department stores promoted heavily in a failed attempt to avoid bankruptcy.

With Campeau's and others' bankruptcies, the pressure to promote has eased. As such, retailers are projected to expand margins into the early 1990s.

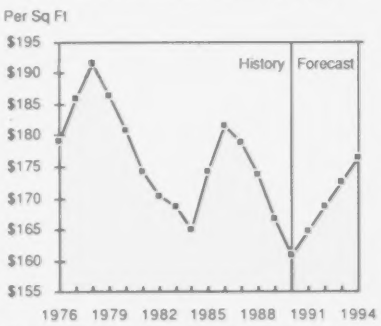
With real sales growth expected to be modest, at best, gains in productivity (sales per square foot) can only be achieved by reducing the total amount of retail space. Through the middle of the 1990s, the total amount of retail space is expected to decline by about 5%. Coupled with a 5% increase in real sales, that will leave space productivity roughly 10% above its current levels.

Development Must Make Sense

Retail space has grown at an unruly pace, to the point where today there is more space than can profitability be used. In the 1980s alone, GLA (gross leasable area) grew by 52%.

While much retail construction occurred to meet growing consumer demand, the building boom continued throughout much of the 1980s because the government rewarded developers for building shopping malls. Wealthy Americans, eager to avoid a huge marginal tax rate, put their money in limited partnerships that built shopping centers. If they lost money, so much the better. These were tax shelters, not investments designed to make economic sense.

Space Productivity
(Real Sales of Gross Leasable Space)



Source: Monitor, U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Because retail development often occurred without concern for long-term fundamentals, the industry today is severely overstored and showing clear signs of maturity, if not stagnation.

A study of shopping center statistics reveals a leveling off of incremental market share since 1982, in spite of the fact that GLA has continued to expand. Furthermore, the growth in GLA has substantially outpaced the growth in population during this period of flat market share. As a result, shopping center square footage per capita has increased from 14 sq. ft. per capita in 1982 to 18 sq. ft. per capita in 1990.

Another sign of maturity is a decline in productivity. In 1974, shopping centers produced $174 per square feet, on average, (in 1990 dollars). By 1982, this had fallen to $169, and in 1990 it stood at $161. As a result, retail profitability has declined as well to a level that probably cannot endure.

Less Retail Space

Today, mall developers are having trouble attracting capital and attracting tenants. Mall construction has dropped and will stay down long after the recession is over.

In the next decade, there will actually be a decline in retail space under lease. That means some retail properties will be converted to other uses, such as offices and service enterprises. Some will be torn down.

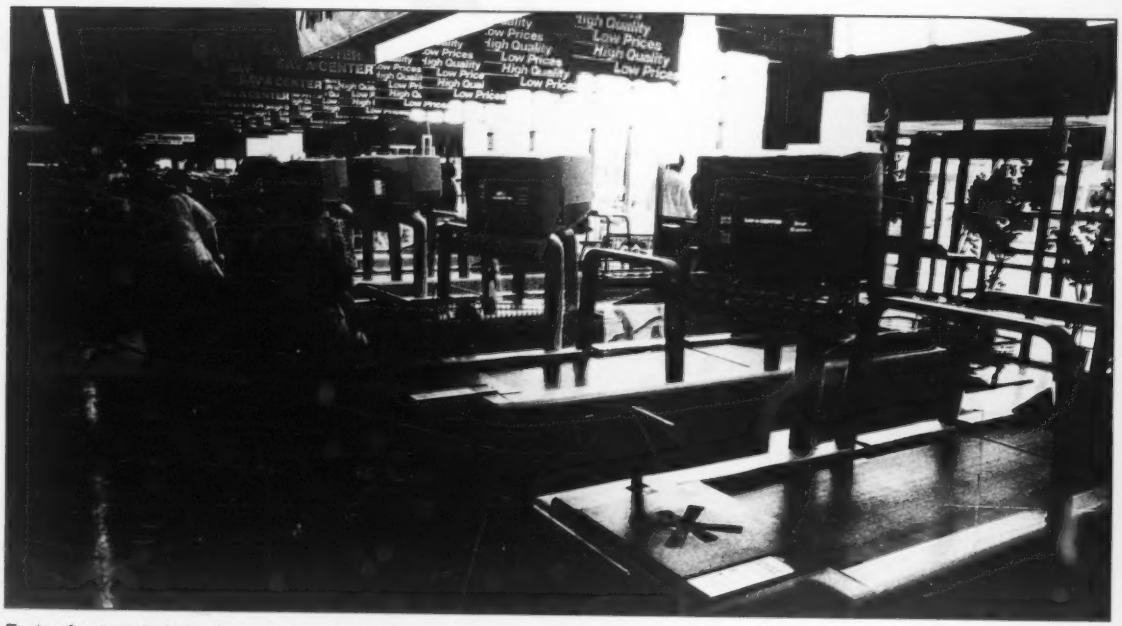
The issue here is one of productivity. Given the amount by which retail sales should grow in the next decade, space productivity cannot reach an acceptable level by the end of the decade unless the stock of retail property declines. That is one way that profitability will recover.

While developers themselves may not accept the fact of a fundamental shift in the need for space, their creditors certainly will. Banks and other institutions have been badly burned by their forays into excessive real estate lending. In the future, they will be much more wary of investing in retail space that is not fully leased to reputable stores.

The failure of so many S&Ls has left the government sitting on an awful lot of under-utilized retail property. The need to sell this quickly has pushed down property prices in some parts of the country, particularly the Southwest, and created enormous opportunities for those with money to spend. So while there will be less retail space under lease in the next decade, those retailers with good prospects might find some very cheap property in the coming years. With the shakeout that is emerging in retailing due to all the bankruptcies, the survivors will be in a position to expand their market shares by acquiring cheap properties.

Driven by rising bankruptcy and the closing of many existing stores, retail profitability will pull out of its four-year-long decline. The improvement in profitability will be less than what has been experienced in the past and will be extremely polarized, with a few firms garnering most of the gains.

—Management Horizons



Tests of automated checkout systems are underway in the effort to reduce store level personnel costs.

Supermarkets: Prey or Predator?

The supermarket industry would appear to be an easy target. The industry is large and battling maturity, with sales twice that of the drug, discount, and convenience sectors combined. Slow to negative real sales growth and virtual saturation in many markets limit growth opportunities. With a core mix of food and dry grocery commodities, supermarkets are subject to aggressive price competition and predatory inroads by other retail segments and new volume-driven formats, such as membership warehouse clubs and deep discount drug stores.

However, instead of standing still and waiting for the competitive arrows to hit their mark, supermarkets have proven to be a wily target. By changing the merchandise mix and profit model in exciting new ways, the industry is successfully handling key competitive challenges.

Supermarkets are well positioned by location, frequency of destination shopping, and efficiency of operation to serve consumer demand for a high value shopping experience. Capitalizing on these strengths, food retailers are adding departments and services to develop further cross-category shopping and one-stop convenience. The strategy is paying off in terms of share of consumer expenditure growth and in higher margin contribution from such offers as floral, cosmetics and prepared foods.

> Supermarkets have long been leaders in the use of technology

One-Stop Shopping Fuels Growth

One-stop shopping was propelled by underlying demographic and lifestyle changes of the American consumer. A decline of traditional households and an increase in the number of working women have altered grocery shopping habits. More meals are eaten outside the home and an increasing number of men and teenagers are doing the grocery shopping. Convenience is a priority and services are in demand.

Supermarkets have responded by developing a portfolio of large store formats such as superstores, food and drug combination stores and super warehouse food stores. These formats often serve as the key growth vehicles for leading chains.

In addition, supermarkets are revisiting their conventional stores with an eye toward ensuring that they not only meet the convenience needs of local area shoppers, but also provide a compelling mix that will encourage repeat traffic and larger transaction sizes.

One-stop shopping convenience is provided in both the larger formats and the "neo-conventional" formats by augmenting the core food offer with an assortment of non-food consumables such as health and beauty aids and cosmetics, a pharmacy de-

partment, and frequently purchased general merchandise such as seasonal goods and housewares.

Typically, service and other perimeter departments are added or expanded (perishables, dairy, deli, bakery, video rental, floral, salad bar) at the expense of the center of the store (dry grocery staples).

In addition to capturing more of the shopper's wallet, these merchandise changes serve as insurance against price and volume driven competitors like membership warehouse clubs, and improve the supermarket's overall gross margin position.

Supermarkets also recognize that consumers' social concerns will influence product purchasing decisions in the 1990s. Studies indicate that over half of all U.S. households will be comprised of environmentally responsible shoppers by 1996.

According to a study by the Food Marketing Institute, nearly 60% of consumers said they are inclined to switch to a store that promotes environmentally friendly products and practices. Retailer response to this trend varies, but some have taken it seriously and are developing environmentally friendly private label products, offering recycling services, and participating in programs such as Green Seal which recognize products meeting predefined environmental standards.

In the 1990s, supermarkets are expected to continue their focus on the perimeter of the store, increase their offer of convenience goods and environmentally acceptable products, and add more services such as child care, in-store banking, health screening and grocery delivery. Providing consumers with a one-stop shopping opportunity will fuel supermarket growth in the 1990s.

Technology As a Weapon

Supermarkets have long been leaders in the use of technology to attain productivity improvements in a slim margin business. This will continue in the 1990s, with increased emphasis on two key areas: automatic product replenishment systems, and automation of the distribution center.

Safeway has added specialty food to broaden its appeal.

Top 15 Supermarket Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Kroger, Cincinnati	$18,485,000	1,255
2	American Stores, Salt Lake City	18,460,000e	1,167
3	Safeway, Oakland, Calif.	14,873,500	1,121
4	A&P, Montvale, N.J.	11,390,943	1,275
5	Winn-Dixie Stores, Jacksonville, Fla.	9,744,494	1,217
6	Albertson's, Boise, Idaho	8,218,562	531
7	Supermarkets General Holdings, Carteret, N.Y.	6,125,963	288
8	Publix Super Markets, Lakeland, Fla.	5,800,000	382
9	Food Lion, Salisbury, N.C.	5,584,410	778
10	Vons Cos., El Monte, Calif.	5,333,900	320
11	Ahold USA, Parsipanny, N.J.	4,413,000	341
12	Giant Food, Landover, Md.	3,349,546	152
13	Stop & Shop Cos., Braintree, Mass.	3,218,160	117
14	Grand Union, Wayne, N.J.	2,996,572	307
15	H.E. Butt, San Antonio, Texas	2,868,750	156

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

The store manager will have greater responsibility for improving a store's bottom line as technological applications allow for the decentralization and integration of gross margin management, labor management, price changing and facilities management functions.

Increasingly, supermarkets are expanding their use of technology to also serve as a marketing and merchandising tool. The industry is a leader in category management computer systems in developing aisle and category planograms.

Effective category management results in more variety in the supermarket, but from the same amount of space and with less inventory, all without sacrificing service levels. In addition, the labor required for product restocking is efficiently matched to the flow of replenishment and sales.

The net result can be as much as a two percentage point improvement to the bottom line through better operating margin productivity.

Taking merchandising technology yet a step further, category management is being integrated with trade area consumer research to develop a merchandise offer that is tailored to the local market needs of individual stores.

Employment practices at supermarkets have changed notably in the past several years. Many unionized full-time workers have been replaced by non-union part-time workers (mostly fairly young) who are paid much less. In the remainder of this decade, there will be a shortage of youthful workers while wages will rise rapidly.

Supermarkets will be required to improve labor productivity in order to operate efficiently, and will rely more on technology to minimize labor hours and serve as an alternative to personal service.

Recent technological applications in this area include the increased use of informational kiosks that serve as product locators, tests of automated checkout systems where the shopper scans the merchandise and takes the generated receipt to a central cashier for payment, and the development of alternative means to reach consumers, such as home shopping via personal computer through the Prodigy system.

Innovative in-store promotional tools also are being developed through supplier-retailer partnerships. These partnerships typically allow the manufacturer to pay to get its advertisements into the shopper's environment during the buying process.

The retailer also benefits by obtaining an added revenue stream, supplementing the cost of promoting its own private label products, and, with some technologies, developing a database of customer information.

Examples of innovative supplier-retailer promotional technologies being tested by many supermarkets include computerized aisle signs,

shopping cart-mounted LCD screens, electronic coupon generation systems, and POS video checkout systems, sometimes coupled with frequent shopper programs.

Frequent shopper programs that generate a volume of detailed purchasing data on an individual shopper basis are enabling many supermarkets to evolve beyond customer segment marketing to relationship marketing. With relationship marketing, supermarkets can track who is buying what, when they are buying it, and how long it has been since they bought it.

As technology becomes an even more important weapon in maintaining price competitiveness, productivity improvements, customer service levels, and a product mix with optimal levels of sell-through, those chains able to invest in technology will enjoy a competitive advantage over those who are unable to keep up the technological pace. As a result, the gap between industry leaders and laggards will widen in the 1990s.

***Fewer traditional households and** more working women have altered grocery shopping habits.*

Leaders and Laggards

Although the supermarket industry as a whole is winning the war for market share, not all players are surviving the battle. The 1980s witnessed the demise of industry laggards, and the growth of industry leaders, with nearly a 5% average annual decline in the number of supermarkets in the latter half of the 1980s.

Some of this decline can be attributed to the development of larger formats that serve a trade area comparable to that previously served by a number of conventional stores. A portion of the decline, however, reflects the demise of underperforming supermarkets, particularly independent "mom and pop" stores.

The continued growth of leading chains at the expense of underperformers, and the trend toward superstore and food and drug combination store formats is anticipated to cause further declines in the number of supermarkets in the 1990s.

The rise of the leading chains at the expense of the weaker companies was evident in a dramatic restructuring of the supermarket industry during the 1980s, largely driven by an unprecedented level of merger and acquisition activity.

From 1980 through 1990, 30% of industry sales volume changed ownership. Approximately half of the volume affected involved leveraged or management buyouts, contributing to a dramatic increase in industry financial leverage.

Much of the remaining volume involved other supermarket companies seeking to speed up their expansion by buying market share.

In the remainder of this decade, the overall pace of industry restructuring is expected to slow down, and a trend toward public ownership is anticipated as companies seek financing to pay off debts and fuel expansion.

No End In Sight

Although supermarkets are currently winning the war for market share, a cease-fire is not in sight, nor is one likely to emerge in the remainder of the 1990s.

With a core merchandise mix consisting of commodity products, supermarkets are extremely susceptible to price-driven competition, both from direct competitors (other food stores) and indirect competitors, such as drug stores, membership warehouse clubs, and discount department stores.

For example, food typically accounts for nearly one-third of a membership warehouse club's sales volume, consisting primarily of dry groceries. In response to customer demand, however, many clubs are experimenting with a perishable food offer and service departments such as bakeries and delis.

Deep discount drug stores compete on price with supermarkets primarily in the health and beauty aids and over-the-counter drugs categories. This store type is increasing its competitive positioning with supermarkets by adding more food products and general merchandise to the merchandise mix, a trend expected to continue through the remainder of this decade.

An emerging format, discount and food combination stores, may also present a long-term competitive threat to supermarkets. In particular, Wal-Mart's SuperCenter, though still in a test phase, could prove a formidable competitor given Wal-Mart's ability to develop and rapidly roll out low cost, operationally streamlined formats. Kmart is also entering the playing field with a Kmart Super Center discount and food combination store.

Industry Outlook

The supermarket industry is projected to grow modestly over the next few years, with real sales growth averaging less than 1% per year. Three factors will contribute to this. First, with slow population growth, demand for food will rise slowly. Second, food prices are expected to rise at a brisk pace due to the political clout of farm interests. Large increases in food prices often lead to a slowdown in real spending. Finally, when the economy is healthy, many consumers substitute restaurant meals for those at home.

—Lois A. Huff

***The Big 3 of full-line discounting**—Wal-Mart, Kmart and Target—account for nearly three out of every four sales dollars.*

The Discount Department Store Industry: The New 'Big 3'

Sears, J.C. Penney and Montgomery Ward have given way to Wal-Mart, Kmart and Target as the new "Big 3" of mass market retailing. Merger and acquisition activity, company failures, bankruptcies and industry consolidation have resulted in an industry dominated by fewer, but larger and more powerful players. The top 10 discount department store retailers now represent 85.3% of industry sales, with Wal-Mart, Kmart and Target alone accounting for nearly three-fourths of total industry volume.

Each of the "Big 3" have unique strengths and distinctive market positions:

- In 1990, Wal-Mart overtook Kmart as the largest discounter. The company grew rapidly during the last five years, expanding its traditional base of smaller-sized, secondary market stores, branching out into membership warehouse club and supercenter formats, and developing an upsized discount store prototype for larger population centers and markets with higher expenditure potential.

Key advantage: Currently, Wal-Mart possesses the low cost advantage over both Kmart and Target, and is clearly in a position to continue leveraging this advantage.

Challenges: For long-term competitive viability, however, an effort equal to the investment in systems will be required in terms of store decor and the shopping environment. Additionally, Wal-Mart's ability to compete in highly competitive and saturated metro markets, and its ability to meet the volume requirements of those areas, is still unproven.

Currently, Wal-Mart possesses the low cost advantage over both Kmart and Target

- Target is progressing well in the development of systems support and is poised for rapid growth through store expansion.

Key advantage: Target has successfully established itself as the leading "upscale" discount department store.

Challenges: As Target continues to move upscale, the key question will be whether there is enough demand to support an upscale discount department store operation as it begins to bump up against highly promotional and lower end department stores.

- While Kmart has achieved only very slow growth in its core conventional, full-line discount store business, it has concentrated growth efforts on diversification into various specialty mass market concepts. Remodel and upgrading efforts for the past several years are a positive.

Key advantage: Kmart's exceptional network of metro locations.

Challenges: Kmart is caught in the middle, with neither the low cost advantage of Wal-Mart, nor the upscale presence of Target. While its loca-

tions are good, site selection is somewhat constrained by Kmart's larger store size. Additionally, the company continues to work through challenging organizational and system support requirements.

Smaller, weaker discount department store companies will find it difficult to compete with these players in terms of vendor relationships and in allocating the resources required for investments in advanced technology, store refurbishings and competitive inventory and service levels.

A Challenging Industry

The discount department store industry reported lackluster sales growth through much of the mid-1980s. In 1988, the industry experienced a reprieve when an increased value orientation of consumers, combined with higher savings rates, gave the competitive edge to discount retailers and boosted sales.

A proliferation of new retail formats now indirectly compete on a low price image with discounters for core customer dollars.

Food-drug combo stores, superstores and hypermarkets affording one-stop shopping are eliminating the need for many discount store visits.

Deep discount drug stores are pulling customers away from one of the discount department store's major traffic draw, health-and-beauty aids.

Specialized mass merchandisers ("category killers") featuring depth and breadth of assortment, low prices and knowledgeable service are siphoning off business by merchandise category, including toys, sporting goods and office supplies.

Off-price retailers are eroding price margins on branded softgoods.

Specialty apparel chains are delivering a high value offer, narrowing the traditional price point advantage of discount retailers.

Membership warehouse clubs are offering lower prices on a limited assortment of high volume items.

Department stores and repositioned Sears and Wards are retaliating with strong promotional stances.

Wal-Mart invests heavily *in its store decor.*

Top 15 Discount Stores

Rank	Company	1990 Sales (000)	1990 # of stores
1	Wal-Mart, Bentonville, Ark.	$26,023,000	1,573
2	Kmart, Troy, Mich.	23,792,000	2,205
3	Target, Minneapolis	8,175,000	420
4	Sam's Club, Bentonville, Ark.	6,579,000	148
5	The Price Company, San Diego, Calif.*	5,286,000	51
6	Costco Wholesale, Kirkland, Wash.*	4,060,000	62
7	Ames Dept. Stores, Rocky Hill, Conn.	3,109,000	455
8	PACE Membership Warehouse, Aurora, Colo.	2,295,000	78
9	Hills Dept. Stores, Canton, Mass.	2,141,000	214
10	Bradlees, Braintree, Mass.	1,771,717	130
11	Caldor, Norwalk, Conn.	1,766,000	122
12	ShopKo Stores, Green Bay, Wis.	1,737,000	104
13	Rose's, Henderson, N.C.	1,525,000	256
14	Venture Stores, O'Fallon, Mo.	1,421,000	79
15	BJ's Wholesale Club, Natick, Mass.	1,100,000	27

* Includes Canadian stores and sales
Source: Management Horizons/*Chain Store Age Executive* research

The discount segment is virtually saturated on a national basis. Except for the Mid Atlantic and Pacific regions, the country is overstored.

The financial performance of the publicly held discount retailers trended steeply downwards during the latter half of the 1980s as industry sales growth stagnated, costs rose and competition, both direct and indirect, intensified. Net profit margins of the publicly held companies dropped from 2.5% to 0.3%, resulting in a corresponding decline in return on net worth from 15.6% to 3.9%. Inventory productivity declined as well, as both gross margins and inventory turnover suffered from competitive pressures.

Consolidation and Shakeout

Approximately 35% of discount department store industry sales volume changed ownership from 1980 through 1989. During the last few years of the decade, the discount department store industry experienced rapid consolidation as weaker, smaller players were acquired, filed Chapter 11, or closed down.

Since 1987, Ames, Gee Bee, Heck's, Alco, Stuarts, Yellow Front Stores, S.E. Nichols and Hills Department Stores filed for reorganization under Chapter 11.

Three other companies, Gold Circle, Mars Department Stores and Times Square Stores, ceased operations during the same period.

On The Bright Side

The success of the "Big 3" demonstrates that discount department stores that are not over-leveraged, have a solid competitive position and utilize sound management practices are in the enviable position of having it all. The following factors will continue to fuel the growth of these leading discount department store retailers:

- The recent economic downturn has improved the discounter's position as a value provider.
- Discount stores are continuing to serve their historic customer base, but have also garnered income-strapped department store shoppers who are trading down.
- The demise of over-leveraged and otherwise weak discount store competitors has increased traffic at the surviving discount stores, improving their position as a preferred value provider in individual markets.

Industry Outlook

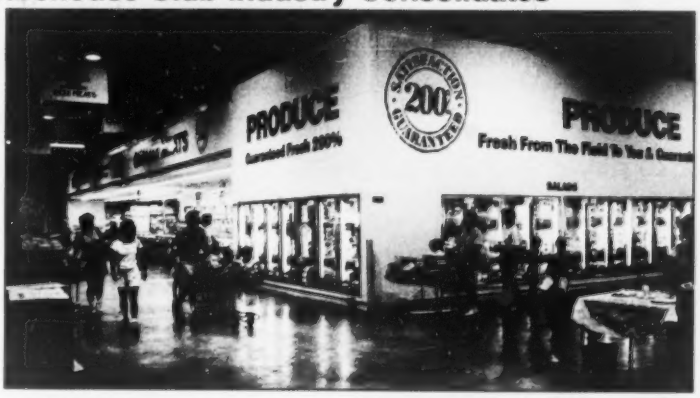
On an industry-wide basis, however, the outlook is not so bright. Over the next few years, real discount store industry growth is projected to slow. The increasing competition of other formats, such as "category killers" and membership warehouse clubs, will cause the demise of many secondary players. The industry will become increasingly dominated by the "Big 3"

—Cathy Dybdahl

Membership Warehouse Club Industry Consolidates

Like discount department stores, membership warehouse clubs have faced their own share of struggles in recent years. Intensifying head-to-head competition and the resulting changes in the structure of the industry have been the big stories. Following the latest round of acquisitions, the industry now consists of only five major players and two small chains.

- Kmart Corporation acquired Makro Self-Service Wholesale in 1988, purchased Pace Membership Warehouse in 1990 and then folded the Makro units into the Pace chain.
- In April of 1989, Price Savers underwent a leveraged partial disposition from Kroger Stores. Kroger sold most of its interest in the chain to Price Savers' management. Kmart's Pace division then purchased Price Savers in January 1991.
- As part of Zayre's restructuring in June 1989, the company's warehouse division was spun off into a new, independent entity, Waban Inc., of Natick, Mass. The new company consists of BJ's Wholesale Club and HomeClub units.
- Wal-Mart's Sam's Club recently purchased The Wholesale Club and is converting the stores to Sam's Club units.
- A&P made a bid for Warehouse Club Inc. that was later withdrawn, and BJ's Wholesale Club is a likely target for one of the major players interested in expanding in the Northeast.



Fresh produce is but one new product or service warehouse wholesale clubs are adding.

The Fallen

Direct competition between warehouse clubs, which was almost non-existent five years ago, is now commonplace. The membership warehouse club industry is more vulnerable to head-to-head competition than other industries. Because the economic model of these operations requires high turnover to offset very low margins, a substantial population base is needed for success. A plethora of competing warehouse clubs are already engaged in "turf battles" over the most attractive individual markets, and some of the weaker companies have met their demise.

In 1990, Club Wholesale liquidated its membership warehouse clubs to concentrate on its office supply superstores. During 1989, three industry casualties were recorded. American Wholesale Club of Richardson, Texas and Net Cost Club of Montgomery, Pa. each closed their last unit, and Buyer's Club of Englewood, Colo. filed for Chapter 7 bankruptcy and liquidation.

These joined the fallen of 1988, including: Wholesale Plus of Plantation, Fla.; Saveco Sales of Riverside, Calif.; Buy It Wholesale of Salt Lake City; and Save-Club which was headquartered in Concord, Calif.

The Chosen Few

Despite the turmoil, membership warehouse clubs experienced dramatic sales and store growth throughout the 1980s. In 1990, the industry registered sales of approximately $21 billion.

These sales, however, are generated by very few players. Like the discount department store industry, this industry is now dominated by three major players: Price Club, Sam's Club and Costco.

In Search of a Differential Advantage

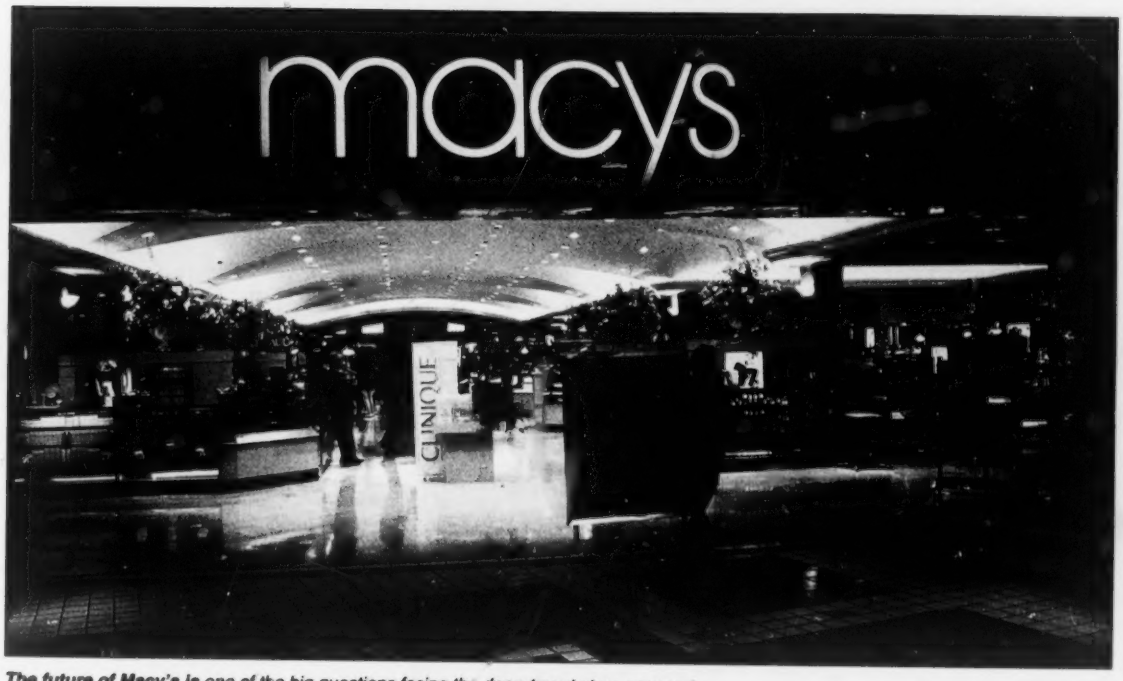
Membership warehouses tend to resemble one another in terms of store size, store location, product presentation, product type and sizing. As intratype (direct) competition has intensified in numerous metropolitan areas, attempts to differentiate each company's offer from the others has resulted in the introduction of a variety of new products and services.

For some, this has required a reallocation of space within the stores. Others are testing larger formats to house the new offers. Key new products and services include office products; fresh food offers, including bakeries, produce and meat; private label goods, which offer the retailer a competitive edge through product exclusivity, a value pricing advantage in relation to comparable name brand merchandise, greater or more consistent quality and distribution control, and higher gross margins.

New services encompass optical centers, business service centers, long-distance phone services, delivery, and automobile referral services, which are geared to providing members with added reasons to visit a membership warehouse club, thereby increasing a store's opportunity to sell more goods.

Industry Outlook

Growth is projected to slow during the next five years as the membership warehouse industry hurtles toward maturity and as saturation of viably sized markets is reached. In the end, only a handful of the most innovative, disciplined and financially secure companies will remain.



***The future of Macy's is** one of the big questions facing the department store segment.*

Department Store Industry Reshuffles Deck

In the 1980s, conventional department stores proved not to be the dinosaurs that many analysts had predicted. Nor will they become dinosaurs in the 1990s. Nevertheless, these behemoths have not seen much growth in the last three years and will certainly face a challenging environment in the decade ahead.

As we enter the 1990's, the department store industry is a mature but viable industry. In 1990, the industry recorded sales of $68.4 billion. Over the last five years, the industry has grown at a reasonably good pace of 5.3% a year. Over the next four years, growth prospects will be depressed in comparison to the last five years due to continuing slower growth of consumer expenditures as the population ages.

Department store growth will slow to 4.1% as the industry continues to transition as a result of the changes wrought by the highly leveraged acquisition activity of the 1980's. Fierce competition from both specialty stores in fashion goods, and from lower cost providers in hard lines and commodity goods will also strain growth prospects.

> The department store industry is a mature but viable industry

The Industry Restructured

The last decade saw a major restructuring of the department store industry. While the major players did not change dramatically, the deck was reshuffled significantly. Acquisition activity, much of it highly leveraged, changed decades-old patterns of ownership. Examples include Macy's 1985 leveraged buyout; May Company's 1986 merger with Associated Dry Goods; and L. J. Hooker and Campeau's ill-fated purchases of a significant piece of the industry in the latter half of the decade.

The net effect of this activity has been a reduction in the number of competitors in the market, the compromised viability of many new, highly leveraged companies, and diminished diversity across retail offers.

Overall, however, restructuring was a positive development for several major players. For example, May Co. has gained significant sales volume through the acquisition of Filene's and Foley's in the Campeau buyout of Federated. More recently, the acquisition of Thalhimer's has given May the opportunity to enter the southeastern United States.

Dillard Department Stores has also taken the acquisition route to rapid growth. In addition to several smaller acquisitions, the company purchased Ivey's from BATUS as part of BATUS' divestiture of its retail holdings. Another winner in this scenario has been

Dayton Hudson which acquired Marshall Fields, an important growth vehicle for Dayton Hudson Department Store Company.

Only a few major hands remain to be played out. The major stories of the next two years will be the resolution of the Federated/Allied reorganization plan and the future of Carter Hawley Hale as they wrestle with Chapter 11, as well as R.H. Macy's battle to regain financial strength. Otherwise the industry is populated with basically healthy companies striving for performance improvements in a slow growth industry.

Industry Consolidation At a High Level

The department store industry was already a very highly concentrated sector of retailing in 1980. While no significant increase in the *sales concentration* of the top 10 companies occurred over the course of the decade (78.4% in 1989 vs. 76.1% in 1980), as mentioned above, significant changes in *ownership* did occur.

The reclassification of J.C. Penney (in 1989) and Mervyn's (in 1988) as department stores, has resulted in the anointing of a new number one department store company (Penney) and the rapid ascension of Dayton Hudson Corporation to the middle of the top 10 department store companies. Otherwise, the industry has experienced little change in the hierarchy of sales performance.

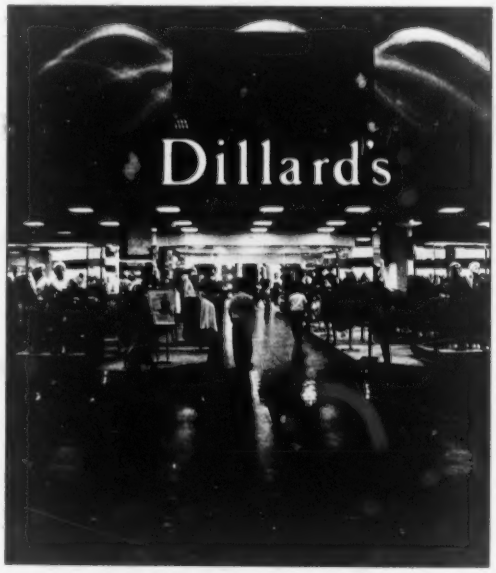
Profitability Has Suffered

The department store industry as a whole has consistently underperformed the total retail industry in terms of return on net worth; only 12.1% in 1989, down from 12.3% in 1984, and still well below the 15% to 18% rate required to ensure long-term viability.

Median net profit margins have declined substantially since 1984. Department store profit margins averaged 1.8% in 1989, down from 2.4% in 1984. This reduced level of profitability can in part be attributed to the highly promotional environment of the department store industry, which in turn, reflects increased competition from other formats and increased pressure on department stores to raise cash for debt payments.

As an industry, department stores continue to enjoy several distinct competitive advantages. They control a high share of spending for core merchandise categories by key consumer segments. They also enjoy very strong established market presence in very important metropolitan markets.

The industry will continue to play an important role as the gateway to new markets for key resources, as well as being the gateway to existing markets for new resources. Department store companies also possess a vast proprietary credit card base providing unmatched opportunities for efficient and differentiated customer communication and service as new technological developments are mastered.



***Dillard's has grown** by acquiring underperforming retailers.*

Top 15 Department Stores

Rank	Company	1990 Sales (000)	1990 # of stores
1	J.C. Penney, Dallas	$14,616,000	1,312
2	May, St. Louis	8,669,000	324
3	R.H. Macy, New York	7,266,772	147
4	Dayton Hudson, Minneapolis*	6,564,000	288
5	Federated, Cincinnati	4,575,900	127
6	Dillard, Little Rock, Ark.	3,605,518	186
7	Nordstrom, Seattle	2,893,904	63
8	Carter Hawley Hale, Los Angeles	2,857,819	114
9	Allied, Cincinnati	2,561,600	119
10	Mercantile, New York	2,367,210	83
11	Belk, Charlotte, N.C.	2,250,000	355
12	Neiman Marcus Group Chestnut Hill, Mass.	1,413,688	26
13	Saks, New York	1,200,000	48
14	P.A. Bergner, Milwaukee	1,200,000	67
15	Woodward and Lothrop, Washington, D.C.	870,000	32

e = estimated
*Includes Mervyns
Source: Management Horizons/*Chain Store Age Executive* research

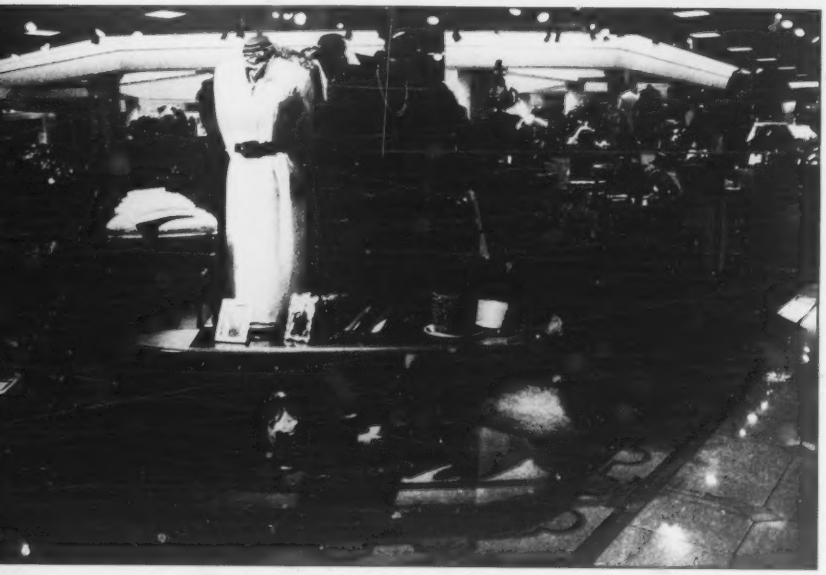
New Challenges

However, the retail business environment of the 1990s will present significant new challenges for department store management.

- Altered Shopping Behavior: With the aging of the Baby Boom generation, the balance of spending power will shift from the youth market to the middle aged market—traditionally the department stores' core market segment. However, these aging consumers will save more, borrow less and shop more cautiously than their younger counterparts. Less frequent shopping patterns will breed new shopper loyalties to stores that consistently satisfy patrons on a one-stop shopping basis.

As a result, department store operators that make it easy for the fashion-forward, professional career woman to shop will be the ones to succeed in the next decade. Customers will gravitate to where they feel most comfortable and will get the most service. Customer service must become an integral part of the way department store companies run their businesses.

- Scarce Resources: Excess demand for investment capital will encounter cautious financial markets. Expansion opportunities will be limited by high market saturation levels and curtailed real estate development. Department stores increasingly will operate from a base of aging stores in malls past their prime while lacking the capital to relocate



***Nordstrom has set** the standard for service in the department store field.*

into new, high performance sites.

The debt laden positions of many department store operators have created opportunities for financially sound competitors. Well capitalized companies will continue to be in a position to sustain growth and tighten market dominance through investment in existing stores, the addition of new stores through construction or acquisition, and the leasing of high profile anchor locations. Healthy mall anchors will benefit from a "buyer's market" with mall developers offering favorable rent structures and generous construction allowances in order to solidify the traffic draw of the mall with a strong anchor store.

● Accelerating Technological Change: New technological resources will be available to meet the department stores' managerial needs of the 1990s. Distributed processing, store level systems, artificial intelligence, database marketing, communication networks, and pipeline management systems are a few examples of important applications available for implementation in the department store industry.

Department store retailers will need to embrace and integrate these new technologies in order to support relationship marketing through continuous information flow from customer databases to decision making authorities. Systems must also be implemented to support merchandise flow, inventory control, vendor alliances and performance monitoring.

Conventional department stores have lost business to discount and off-price stores

Electronic Data Interchange has been at the forefront of department store retailing, enabling the inventory pipeline to move goods more swiftly between manufacturer and retailer. The introduction of POS equipment to record and analyze sales has helped department stores downsize by identifying and eliminating unprofitable departments. The continued application and upgrading of computer-based technologies will assist successful industry operators in maximizing operational efficiencies and finding the correct balance between deep inventory positions and inventory control.

● Intensifying Competition: Aggressive department store competitors will increase their market share dominance in the early 1990s. However, new competition will come from larger format specialty apparel stores with vertical integration capabilities. These stores will drive destination business with differentiated assortments and focused market dominance. Leading discount department stores will enjoy increased access to vendors previously serving the department store industry to make market share inroads at moderate price points and in basic merchandise offers. Off-price retailers will add services and upgrade stores, while specialized mass merchandisers will increase their share of home goods categories.

● Service Imperative: The 1980s saw some improvement in the level of *personal* customer service offered in department stores. While these improvements should continue, greater opportunity for *overall* customer service gains can come from the impact of innovative operating systems.

Technology leaders like May Company and Dillard have invested in systems to streamline the business while raising service levels in important areas like in-stock position. Department stores will need to invest in the shopping experience to capture and maintain preferred customer patronage in an era of declining shopping frequency and intensifying rivalry from fewer, stronger competitors. The industry leaders in the 1990s will invest heavily to raise the level of customer service still more through improved product information and in-store merchandising.

Industry Outlook

In the current recession, conventional department stores have lost business to discount and off-price stores. Economic uncertainty has led many customers to move downscale in their discretionary shopping. As a result, real sales for 1991 will decline by about 1.7%.

When the economy recovers in 1992, conventional department store sales will rebound modestly, reflecting not only the slow growth of the labor force but the loss of market share to other formats, particularly specialty apparel stores.

In the 1990s, success will increasingly center on department stores with substantial size and enduring financial stability. Sustainable high performance levels will require sufficient size to enable marketing and operating economies and continuous investment in the future.

—Alan J. Wagman

***Traditional drug stores face intense** competition from deep discount drug units, combo stores, discounters and superstores.*

The Drug Store Industry: Losing Its Drawing Card

When drug stores were virtually the only source for prescription service, the concept of adding an eclectic assortment of general merchandise worked well. Today, conventional drug store retailers are under pressure on many fronts for their core prescription business. Many are finding it challenging to develop other substantive reasons for the consumer to come in and shop.

On a national basis, conventional drug stores have lost their position as store of first choice for core merchandise categories, except for prescriptions. Even for prescriptions, market share has fallen dramatically. In 1990, 57% of consumers said that they purchase prescription drugs most often at conventional drugstores, down from 69% in 1988. In 1990, 38% said the same about over-the-counter drugs, compared to 51% in 1988.

The drug store industry, one of the oldest lines of trade, throughout the years has maintained a traditional approach to retailing. This approach has rendered the industry vulnerable to

> The conventional chain drug store segment is under pressure

market share gains by more progressive lines of trade, making in-roads through the superior use of technology, stronger consumer appeals, and better business economics.

Deep discount drug stores, food-drug combination stores and superstores, and discount stores have attracted conventional drug store customers through value pricing and/or one-stop shopping convenience. Supermarkets have also rapidly grown their share of the declining tobacco and alcohol categories, two other drug store categories.

Meanwhile, deep discount drug stores have gained consumer preference in all consumable categories. In 1990, 16% of consumers named deep discount drug stores as their store for most OTC drug purchases, up from 6% in 1988. Cosmetics showed a similar increase, with 12% share of preference in 1990 versus 6% in 1988.

In recent years, drug stores have responded to their declining market penetration with a "back-to-basics" approach to merchandising. This strategy has included a renewed emphasis on the prescription drug, over-the-counter drug, and health and beauty aid businesses, focusing on customer service and convenience in terms of location and checkout speed.

However, this strategy has not effectively converted the prescription business of conventional drug stores into additional sales of other key merchandise categories.

Research has shown that a large percentage of consumers who do shop conventional drug stores for core OTC and prescription drug categories are passing up the opportunity to also purchase other categories, such as health and beauty aids and cosmetics. Often, these very same customers are making a separate trip to a discount or specialty store for such items.

Cross shopping for non-prescription categories in deep discount drugstores is somewhat stronger than in conventional drugstores. Their OTC drug customers also favor them for health and beauty aids and cosmetics 63% and 43% of the time, respectively.

What is left for the conventional drug store chains is the absolutely essential requirement to develop significant presence in two or three categories, in addition to pharmacy, as a headquarters destination store.

Chain Growth Through Acquisition Drives Consolidation

Chain drug stores today, in the aggregate, represent almost two-thirds of industry sales. They have grown rapidly at the expense of independent druggists.

Over the past five years, the top 10 chains have significantly increased their share of sales from 34.9% to 45.5% and their share of stores from 15.5% to 21.2%. Consolidation of the industry has come as a result of chains jockeying for higher market share either on a national basis or in key local markets.

On a national basis, chain drug stores grew through mergers and acquisitions and as a result of the shakeout of small independent drug stores.

On a local market basis, stronger players have swallowed up units divested by weaker players. Following these transactions, most companies have consolidated operations and store nameplates to strengthen market positions and to achieve operational economies of scale.

As a result, drug stores will vie against fewer, stronger players in the 1990s. Company level growth will be dependent upon market share gains at the expense of competitors. Nevertheless, the conventional chain drug store segment is under considerable pressure. Overall, traditional drug store formats have been the losers in competitive battles with their own kin—the deep discount drug stores—and from the substantial inroads into drug store turf by supermarkets and discount stores.

Phar-Mor is among the chains dominating the deep discount field.

Top 15 Drug Store Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Walgreen Co., Deerfield, Ill.	$6,047,494	1,564
2	American Drug Stores, Oak Brook, Ill.	3,695,900e	681
3	Jack Eckerd, Clearwater, Fla.	3,367,259	1,673
4	Rite Aid, Shiremanstown, Pa.	3,260,000	2,420
5	Thrifty, Los Angeles	2,500,000e	749
6	Revco, Twinsburg, Ohio	2,490,000	1,126
7	CVS/Peoples, Woonsocket, R.I.	2,485,000	1,196
8	Longs Drug Stores, Walnut Creek, Calif.	2,333,767	261
9	Phar-Mor, Youngstown, Ohio	2,030,000e	250
10	Hook-SupeRx, Cincinnati	1,870,000	1,118
11	Pay Less Drug Stores, N.W., Wilsonville, Ore.	1,642,000	321
12	Drug Emporium, Columbus, Ohio	1,210,000e	207
13	Thrift Drug, Pittsburgh	1,197,000	487
14	Fay's, Liverpool, N.Y.	673,000	197
15	F&M, Warren, Mich.	660,000e	96

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

Three Firms Drive Growth of Deep Discount Sector

Deep discount drug stores have considerably increased market share as a result of tremendous growth over the last five years, indicating consumers' rapid acceptance of the deep discount format. They now account for approximately 8.0% of total industry sales, double their 4.0% share in 1985.

The deep discount segment is currently comprised of about 15 chains, down from some 40 or so companies who were experimenting with this format in 1985. The three largest—Phar Mor, Drug Emporium, and F&M Distributors—account for over two-thirds of this niche's sales.

Their market share gains came at the expense of conventional drug store chains, independent drug store retailers, and discount stores. This trend is expected to continue as deep discount chains aggressively expand.

A Mature, Slow Growth Industry

The $66.1 billion drug store industry has reached maturity and is forecasted to continue on a path of modest real growth. However, despite their long-term structural problems, the drug store industry has done quite well recently in terms of current dollar sales growth, indicating that drug stores are somewhat less susceptible to economic downtrends than many other lines of trade.

In fact, their core product—prescription drugs—is not only non-cyclical, but could be considered somewhat counter-cyclical, as illness tends to increase during periods of economic uncertainty.

The real key to recent industry sales gains, however, has been the success of deep discount drug stores in building a destination business for health and beauty aids and other household products. Absent these types of stores, industry performance would be less impressive.

Changing Performance Standards

Composite financial performance of the publicly held drug store companies improved over the last half of the 1980s due to the rapid growth and solid financial performance of leading chain drug store competitors.

Net profit margins have declined somewhat since 1985 as a result of increasing price competition from intensifying direct and indirect forms of competition. However, leading drug stores are effectively adjusting their economic models to mitigate the competitive impact and, as a result, have achieved a recent upswing in net profit margin.

Although merger and acquisition activity is primarily responsible for the escalating levels of debt among leading competitors, investments in technology have also contributed. The increase in financial leverage reflects the efforts of these competitors to achieve growth through strategic investment in the future, which was ultimately reflected in the recent upward trend in return on net worth.

The economic model of the con-

ventional drug store is rapidly changing in response to the proliferation of third-party insurance programs and the influx of new drug store formats.

The rapid increase in the percentage of total prescriptions covered by third-party payment plans poses a threat to pharmacy gross and net profit margins. The superstore and deep discount drug store formats have further intensified price competition, which has also negatively impacted gross margin performance.

Despite this decline, gross margin return on inventory performance has moved consistently upward as a result of inventory productivity improvements reflected by rising sales-to-stock ratios.

Key Success Factors

While achieving success under very different operating formats, leading drug store companies do share several common strategic initiatives:

- Systems technology and chainwide implementation,
- Customer service and communication,
- Updated store facilities and shopping environment,
- Dominant presence in markets served, and
- Targeted merchandise assortments and in-stock position.

Industry leaders have all addressed these elements as primary business drivers, but have tailored the implementation in a manner best suited to achieve company specific goals and objectives.

No Standard Success Formula

Increasing market saturation and intensified competition have required drug store retailers to develop unique business strategies.

Leading competitors have tailored their positioning strategies to achieve differentiated appeal in terms of customer segments and merchandise offerings. These opportunistic companies have been rewarded with noticeable increases in sales, profitability and productivity.

Each of these competitive strategies is supported by a somewhat different economic model with operating characteristics designed to achieve maximum growth, efficiency, and financial performance under that business scenario.

New Challenges for the 1990s

Conventional drug store retailers today must respond to a variety of changes in their industry structure:

- Intensifying direct competition,
- Intensifying indirect competition,
- Changing economic model variables and business drivers,
- Lost patronage due to shifting consumer shopping behavior, and
- Continued proliferation of third-party health care providers.

They must reformulate their operating and positioning strategies to effectively and successfully address the challenges which lie ahead.

Positioning Challenge: It is not enough to be just a good drug store anymore. Conventional drug store retailers must drive customer preference. Other than prescription drugs, drug stores are no longer the store of first choice for the current core category mix. Drug stores must alter existing merchandising and operating strategies to regain lost patronage.

Drug stores serve as the "convenience" alternative in many markets and must edit and reposition the merchandise assortment to profitably meet consumer demand. Customer service and other service offerings will serve to differentiate competitors, both direct and indirect, and build customer loyalty.

Systems Challenge: Drug stores must review and update pharmacy operations to incorporate computer systems capable of profitably processing third-party payment transactions. Advanced pharmacy technology is rapidly becoming a prerequisite for capturing pharmacy business covered by third-party providers.

Economic Model Challenge: Consolidation in the drug store industry has enabled larger chains to gain buying leverage with suppliers. New merchandising strategies and economic model shifts will require drug store retailers to fully exploit buying leverage opportunities in order to regain competitive advantage.

Industry Outlook

Drug stores generate traffic by specializing in a destination product: prescription drugs. Drug stores should be able to grow at a healthy pace due to the aging of the population and the elderly's need for more pharmaceuticals.

Yet, they have two problems. First, they are losing market share to grocery stores and discount stores in their primary product areas: prescription and OTC drugs.

Second, they have not succeeded in using the traffic they have to increase sales of other products.

In the future, the survival of many drug stores will be in question. As supermarkets and discount stores increase their offers of drugs, health and beauty aids, and other consumable products, such as greeting cards, photo products, and tobacco, drug stores will be hard pressed to justify their existence.

Management Horizons projects real growth of the drug store industry to decline slightly over the next four years due to the level of industry maturity and continued market share loss to other competitive formats.

—Jennifer J. Crites

***Buying on deal is a** basic merchandising strategy of the deep discount drug stores.*

Structure is part of The Limited's diversification strategy through its Express division.

Demographic Tail Winds Spurs Growth of Specialty Apparel Retailing

Specialty apparel retailing reached $45 billion in 1990 after a decade of favorable demographic trends spurred the growth of the women's and children's segments. Working women, polarization of incomes and the birth of the baby boomlet generation fueled this growth.

Also contributing to growth in specialty apparel retailing were favorable economic factors. Consumers earned more money and took advantage of the fact that real prices on apparel were falling. The free-spending atmosphere that pervaded the decade also boosted apparel growth.

The women's segment benefited from economic factors fueling apparel sales disproportionately in comparison to other lines of trade. Fragmentation of consumer markets into groups with different demographics, fashion preferences, and shopping patterns, and the resulting demand for finely focused offers, favored the growth of specialists.

Growth on the children's side has been largely spawned by strong retailers spinning off children's apparel concepts like Kids "R" Us, Limited Too, Gap Kids/baby Gap and Little Folk/Kids Mart.

> Men's wear muddled along during the decade with no real growth

Men's wear muddled along during the decade with no real growth after accounting for apparel price inflation. The winners during the decade were unisex stores, like The Gap, and stores catering to fashion-forward young men with sportswear offers, like Merry-Go-Round's DJ's/Dejaiz.

The men's business remains quite fragmented, with few large scale players. Men's offers have not provided a strong enough magnet to consistently draw male customers from their safe department store havens. Traditional men's clothiers have been largely segmented on the basis of price, not fashion position.

Only recently, and likely as a result of women's and unisex firms' successes, has there been a recognition of the importance of taking a fashion position among men's wear retailers.

Off-price retailers, the growth segment of the 1980s, have recently seen their competitive advantages negated. Apparel inventories are under tighter control, leaving fewer name brands to be gobbled up by more off-pricers. Strong specialty apparel chains have built customer franchises around private label brands while department stores have edited assortments to the most popular brands, augmented with private labels.

Concurrently, "20% to 30%-off" has become the rule rather than the exception for department store pricing, thus eroding the off-price advantage. What remains for off-pricers are their spartan surroundings.

In 1990, the women's segment comprised the lion's share—73%—of industry sales while men's represented 21% and children's 6%.

Consolidating, but Still A Fragmented Industry

Specialty apparel retailing, especially the children's sector, historically has been a fragmented industry with numerous "mom and pops." This is changing rapidly due to mergers and acquisitions, bankruptcy filings and aggressive expansion among industry leaders. During the 1980s, the top 10 players grew from 6.7% to 17.2% of industry sales volume.

The level of merger and acquisition activity in women's specialty apparel retailing has been fairly high during the decade, with about one quarter of sales volume trading hands, concentrated among relatively few players. The leader has been The Limited, with its aggressive expansion of acquired concepts. Merger and acquisition activity in men's and children's segments has been fairly low.

The industry did not escape the wave of bankruptcy filings during the latter part of the decade, although it was less affected than many other lines of trade, in part, because most large specialty apparel chains have avoided excessive debt. About 40 major firms, accounting for 3.5% of apparel store sales, filed for Chapter 11 between 1985 and 1990.

Performance Improvements Have Been Tough To Achieve

Intense indirect and direct competition for market share has led to excessive price competition, robbing retailers of adequate gross margins and teaching consumers to buy only when items are on sale. Key retailers line up against one another within regional malls where consumers can easily make comparisons among specialty apparel retailers whose offers are not sufficiently differentiated to set them apart from the pack.

During the last five years, gross margins for publicly traded specialty apparel stores have slipped almost four percentage points to 30.7%. Net profit margins have eroded from 3.1% to 2.2%, which has led to the decline in financial performance as measured by return on net worth from 16.0% to 9.8%.

The saving grace for inventory performance has been tighter controls on inventory. Such controls have counterbalanced declines in gross margins by boosting sales to stock ratios from 5.8 times to 6.7 times from 1984 to 1989. Control of inventory has become a key requirement for success, especially for fashion specialty apparel retailers which must stay in tune with fast changing trends.

Performance Improvements Will Continue To Be Constrained by Rising Costs

Pressures upon operating costs will continue. First, the most productive retail space is becoming less affordable, especially for small or marginal operators. Second, cheap sales help will be in short supply, which will constrain the ability of specialty apparel retailers to deliver superior customer service. This means that improving space and labor productivity will become even more critical.

Some strong specialty apparel retailers will meet the challenge of increasing rents by becoming destination stores, thereby enhancing their clout with developers.

Costs of goods will rise due to rising import prices. In response, specialist retailers will transfer their sourcing capabilities toward those countries with the cheapest labor.

Another rising cost is the cost of capital. For debt-laden retailers, interest payments will continue to be problematic. For retailers with cash reserves, acquisition opportunities will abound.

Merry-Go-Round's Attivô stores have prospered in hard times.

Top Full Price Apparel Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	The Limited Inc., Columbus, Ohio	$5,253,509	3,864
2	Melville Corp., Rye, N.Y.*	3,035,511	1,552
3	TJX Cos., Framingham, Mass.	2,436,000	967
4	The Gap Inc., San Bruno, Calif.	1,933,780	1,092
5	U.S. Shoe Corp., Cincinnati*	1,335,700	1,763
6	Petrie Stores, Secaucus, N.J.	1,281,845	1,631
7	Burlington Coat Factory, Burlington, N.J.	900,000e	160
8	Charming Shoppes, Bensalem, Pa.	886,265	1,058
9	Woolworth, New York**	878,000	1,700
10	Ross Stores, Newark, Calif.	804,111	185
11	Edison Bros., St. Louis	752,160	1,726
12	Hartmarx, Chicago	716,000	485
13	Merry/Go-Round, Joppa, Md.	628,127	675
14	Eddie Bauer, Redmond, Wash.	600,000e	178
15	Kids "R" Us, Paramus, N.J.	540,000e	164

e = estimated
* Includes apparel operations only
**Includes worldwide apparel operations only
Source: Management Horizons/*Chain Store Age Executive* research

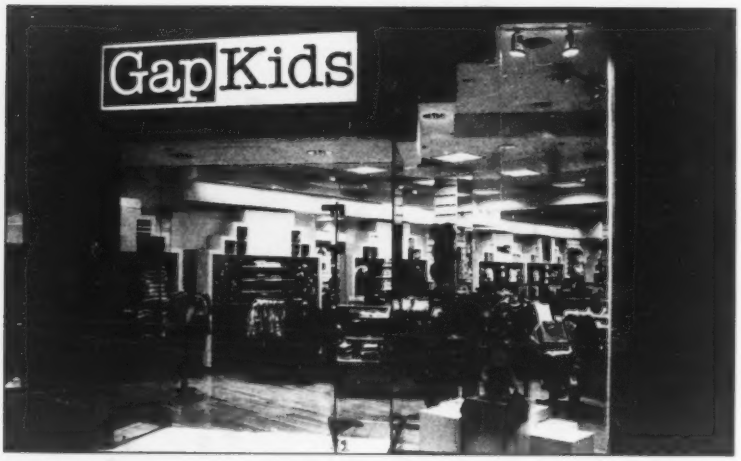
Rising Above the Pack

Despite a mandate for innovation from retailers seeking above market growth, many factors have conspired to produce a high degree of sameness. These factors include: the temptation to copy the leader; consolidation, which brings more establishments under the same management direction; common vendor merchandising programs; and common technology. As a result, many stores look the same, offer the same product assortment, and charge the same prices.

A quick study of market leaders reveals their ability to rise above the pack through leadership in merchandise development, resourcing and display, operational efficiencies and market positioning.

High performance in specialty apparel retailing requires high levels of fashion intelligence and expertise to translate the latest trends into merchandise that sells. Successful players have buyers in key fashion centers. They transmit new fashion ideas to their factories. They test new products quickly. They have systems in place to adjust production according to demand

APPAREL CHAINS



GapKids, the San Bruno, *Calif.-based specialty chain increased sales by 22% last year.*

and ship goods quickly.

Private brands offer specialty apparel retailers key advantages of differentiation from competition and the ability to maintain acceptable gross margins while remaining price competitive. When specialty apparel stores, like The Limited and The Gap, are able to position their private brands successfully as leading brands, they establish dominance in the channel of distribution.

Multiple Consumer Profiles

The typical profile of consumers who shop at specialty apparel stores is one of a somewhat younger, more affluent customer. Such a profile, however, provides, at best, a watered down view of who shops specialty apparel stores and why. It takes a fragmented market and reaggregates it.

Specialty apparel retailing's success is founded on the premise that consumer niches, bonded only by their ability and desire to buy apparel in stores uniquely positioned to their needs, exist. Multiple profiles of consumers shop specialty apparel stores. They range from young careerists who are budget and fashion minded to affluent, but spreading, older baby boomers, to teens who cruise the malls in search of hot trends and escape from boredom. Each segment has proven to be viable. Each segment has fueled the success of leading specialty apparel retailers.

Multiple Store Formats

The Limited, Gap Stores Inc., and Merry-Go-Round Enterprises represent the premier chains today. These innovative firms not only possess the qualities outlined for high performance retailers but also achieve growth through development of multiple store concepts.

Gap Stores Inc. offers:

- The Gap, with an assortment of basic, but well-styled casual wear that appeals to a wide age spectrum. All Gap merchandise is private label with the exception of Levi Strauss & Co. goods.
- GapKids/baby Gap, with an assortment of boys and girls and infants and toddlers apparel under Gap labels.
- Banana Republic, with an offering of classic, casual wear for men and women between 20- and 50-years-old, under the Banana Republic label.

The Limited's Inc.'s divisions include:

- Limited Stores, targeting relatively affluent, working women. This division is also the home of Cacique, characterized as a "French" approach to lingerie, and Limited Too, fashion for kids.
- Express, focusing upon the contemporary woman, and housing the Structure stores, focusing upon the contemporary man.
- Lane Bryant, serving the fashion-conscious woman, sized 14 and up.
- Victoria's Secret, offering private label intimate apparel and personal luxury items.
- Lerner New York, directing its focus toward budget minded, but fashion conscious female baby boomers.
- Henri Bendel, serving the upscale, fashion sophisticate.
- Abercrombie & Fitch, targeting upscale men and women with traditional tastes.

Merry-Go-Round Enterprises Inc., includes three divisions:

- Merry-Go-Round, targeting fashion conscious young men and women and offering both brand name merchandise and proprietary labels.
- DJ's/Dejaiz/Attivô, offering the DJ's/Dejaiz concept for style conscious young men between 18 and 34 and the Attivô concept, a more upscale offer.
- Cignal, catering to young professional men and women with reasonably-priced groupings from emerging designers augmented with private labels.

Multiple store formats provide retailers with key advantages: room for growth when a specific consumer niche is saturated; clout with developers; potential for destination store status when concepts are housed in an expanded space under one roof; the ability to spread the risk of a merchandising "miss" in one division over the entire portfolio; resourcing and operational efficiencies; and the funds to experiment with new ideas.

Multiple Modes of Distribution

Specialty apparel catalogs provide retailers with a vehicle to communicate effectively with current and potential customers without waiting for them to enter the store or, more importantly, someone else's store. It also gives retailers the ability to "test the waters" in a new market prior to committing to bricks and mortar.

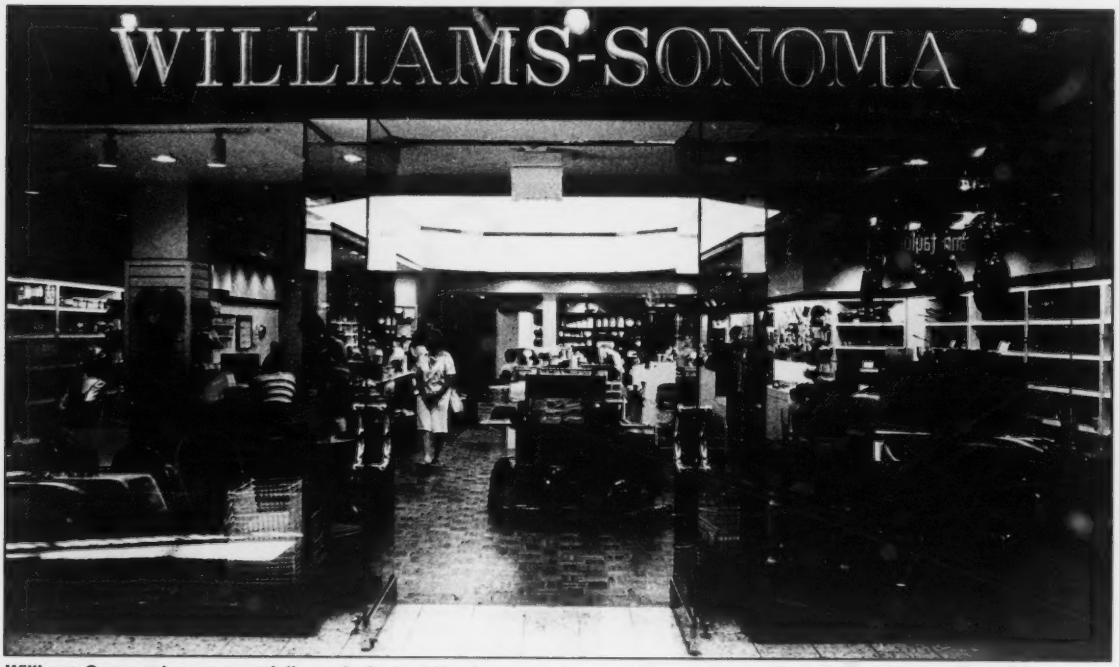
Industry Outlook: Price Inflation To Drive Growth in the Early 1990s

A combination of large price increases and a weak economy depressed real growth of apparel store sales in 1990. The industry will not start to pick up until late 1991. After that, steady growth will resume. Nevertheless, average growth will be modest in comparison with the "go-go" years prior to 1987. Disposable income will be expanding more slowly and people will be saving more.

Consequently, less discretionary spending will take place. Apparel stores will, however, continue to pick up market share at the expense of department stores.

This somewhat sluggish outlook compared to the last decade portends a difficult arena for industry followers and low probability of survival for marginal operators.

—S. Amanda Putnam



***Williams-Sonoma has successfully made** the transition from a catalog-only company to one with several store concepts.*

Hard Lines Retailers: Wake Me Up When It's Over

Most hard lines retailers have had a rough time lately. The recession caused a dramatic slowdown in inflation-adjusted spending for many of these products. In addition, the decline in household formations and the rise in the personal savings rate are dampening long-term spending growth for hard goods.

More of the Same in Furniture Retailing

Except for a few shining stars in an otherwise gloomy industry, furniture and home furnishings are a prime example of a category where the product and the setting in which it is sold have remained virtually unchanged through the years. Furniture retailing has become stale in its offer.

However, there are several bright spots to be found in the home furnishings arena. For example, retailers such as Williams-Sonoma, Pier 1 Imports, and The Bombay Company have been very successful in carving out a niche in the home furnishings marketplace by developing a focused strategy and executing it well.

> The consumer electronics and appliance industry remains largely fragmented

Efficiency and effectiveness in distribution could well be a critical point of differentiation between today's winners and tomorrow's bankruptcies. Time and again consumers are frustrated when the enthusiasm of a furniture purchase is deflated due to delays in manufacturing and/or delivery.

This and other barriers to furniture purchasing through conventional channels has led many consumers to retailers who sell their product through catalogs or backroom offices as opposed to showrooms or galleries, thus reducing their overhead (and prices).

The "North Carolina connection", as this process is commonly referred to, threatens the furniture retailing industry.

At the same time, Ikea and its knock-off stores pose another threat with their extensive value-driven offerings of ready-to-assemble, customer friendly stores.

Perhaps most detrimental to the growth of the furniture industry has been the message espoused by so many furniture retailers and manufacturers that goes something like "Invest in this table/sofa/dresser and you'll have it forever."

The result of this often subtle theme is that consumers have been "taught" to be satisfied with what they have. While fiscally responsible, the lack of consumer traffic in furniture stores has, in part, been brought

***Best Buy and other category** killer electronics stores must adapt to slower sales gains.*

on by the industry itself.

In order to "awaken" consumers' interest in furniture and home furnishings, retailers must draw consumers in and excite them with an offering that is so compelling as to convince consumers that they need to or want to change their home environment.

Once in the store and interested, shoppers must find the experience as risk-free and intimidation-free as possible.

Research suggests that consumers, on average, make four trips to a furniture store prior to making a purchase. This leaves open too many opportunities for the consumer to change his or her mind and not return. This is of particular concern during a period when consumers are postponing furniture and home furnishings purchases in favor of experiential purchasing such as travel.

Furniture stores have also faced difficulties stemming from the weakness in the economy, particularly in the housing market. However, economic recovery in 1992 will bring only modest growth as the decline in the number of household formations will reduce the demand for furniture. In addition, the settling down of the baby boomers will reduce the amount of turnover in the housing market, dampening furniture demand.

Slow Pace of Technological Innovation Hurts Consumer Electronics Retailers

The 1980s was a period of gangbuster growth for the consumer electronics and appliance store industry. Several factors combined to create the revolution that took place in the 1980s and gave rise to today's leading category killer retailers—Circuit City, Best Buy, and The Good Guys, to name a few.

These factors included hot new products to stimulate demand, such as CD players, VCRs, telephone answering machines, and cellular telephones; the development of the superstore retail format offering a wide selection of merchandise at value prices and reducing the need for a distribution center; and substantial advances in production technology to hold down costs for everyone from the supplier to the consumer. In addition, the maturation of the baby boom generation contributed to the high demand for gadgetry.

Nevertheless, in three of the last four years, real growth has been in the mere single digits. This is partly due to the lack of new products and partly the result of an increase in personal savings. With the economy in recession for much of the year, real sales should expand just 4.5% in 1991. That is lower than in all but three of the last 15 years.

As the economy recovers in 1992, growth will pick up, but only modestly by historical standards. Several factors will account for this. First, while product innovation will continue, there are no watershed items expected on the market for the foreseeable future.

Second, aging baby boomers are becoming more concerned with the need to save for their children's education and their own retirement.

Finally, for demographic reasons, households will form more slowly, leading to fewer purchases of major appliances.

As the majority of the trade anxiously awaits the arrival of the next major product innovation, successful companies are focusing on plus business by broadening their product offer to include such categories as home office (facsimile machines, copiers, etc.), automobile equipment (car stereos, alarms, etc.) and larger screen television sets packed with features.

These companies are realizing that although the HDTV (High Density Television) and CDI (Interactive Compact Disk) technologies may loom on the horizon, and that DAT (Digital Audio Tape) and LDP (Laser Disk Player) are the most recent product innovations to hit the market, the way to attack today's marketplace head-on is to hone in on those product categories possessing low current penetration rates, yet enjoying high future growth prospects.

Like other hard goods retail sectors, the consumer electronics and appliance industry remains largely fragmented despite the rapid expansion of the power players. Only one-fourth of total 1990 sales were rung up by the 10 largest companies.

The smaller independent retailers are "surviving" in this business by providing superior customer service in all aspects of their offer, and in many cases, are thriving by carving out a niche in the marketplace that the chains or mass merchants are too large to respond to. This may range from adding services such as custom installation and "how to" classes to executing personalized marketing such as direct mailings and preferred customer programs.

Recreational Goods Retailers Face Increased Competition From Superstores

Superstores have become an important competitive factor in the dis-

tribution of many categories of merchandise. While a relatively new concept in sporting goods retailing, the superstore has become the dominant retail format in the toy industry.

Sporting goods stores have been a relatively rapid growth retail sector, growing at a compound annual rate of 7.6% between 1980 and 1990. A major factor contributing to the growth of the industry in general, and the superstore format in particular, is the product proliferation in a number of categories, particularly in shoes and apparel.

The industry consists primarily of full-line stores that carry a broad assortment of sporting goods equipment, apparel and shoes; and specialty stores that target a specific sports segment, such as bicycle, golf or ski shops.

Sporting goods superstores, including Sportsmart, Sports*Town, and Kmart's Sports Authority, are the most significant new form of competition, although it is not yet clear whether the conditions for the success of the superstore format in other sectors of the industry are totally applicable to sporting goods.

Many questions have been raised regarding the long-term viability of the sporting goods superstore concept. Can these operations capture a large enough share of the market to generate the sales volume necessary to support their large size?

Because of the limited size of the market, will some other formats have to be forced out in order to make room for the superstores? Will consumers perceive the superstore as a destination store? Can the superstores fulfill their promise of a tremendous selection at low prices, all the while maintaining the quality service of a specialty retailer?

The current superstore operators appear to be continually adjusting their formats in an attempt to make the concept work more effectively and profitably.

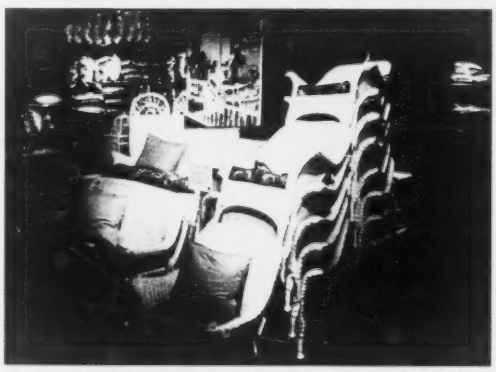
What is clear is that some of these superstores will continue to exist and grow. In the major metro areas, where there are many sporting goods stores going after the same customer, it seems likely that a polarization of sorts will occur.

Superstores, at one end of the spectrum, will present a strong offer of both sports equipment and apparel, providing one-stop shopping convenience; and smaller format specialty stores, possessing a greater level of intensity of service and merchandise within a specific product category, will continue to do well at the other end. Retailers caught in-between will increasingly find themselves in "no man's land".

Toy Stores: Over the past few years, it has been the toy manufacturers who have had to struggle through the difficult times. Today, the nation's toy retailers find themselves in the same predicament—of the 12 largest toy chains in the United States, only five of them recorded sales gains in 1990. Leading the way once again was the nation's number one toy retailer, Toys "R" Us, which rang up nearly one-third of overall industry volume.

Mall-based toy concepts are especially feeling the pinch, largely from an overall decline in mall shopping trips as well as falling prey to the added convenience being offered by the superstores, which are located primarily in strip shopping centers.

One of the largest challenges facing the superstore operators as they pursue aggressive expansion plans is to remain "special" in the eyes of consumers. Many specialty retailers are starting to act like mass merchants, moving away from points of differentiation, such as service, which has built the business through the years. At the same time, elements which used to be the sole property of specialty stores, such as certain product lines, are now showing up in the larger operations as well.



***A focused strategy has** propelled Pier 1 Import's growth.*

In spite of the dominant market position that Toys "R" Us has been able to achieve over the years, don't count out the mom-and-pop type outlets by any means. Numerous independent toy retailers are thriving vis-a-vis personal touches such as personalized service and a strong local image, benefiting from word of mouth to boost traffic in their hometown markets.

These companies have been successful in setting themselves apart from mass merchandisers by concentrating on the ways in which they are different—from hand-picked stock selection to complete re-evaluations of business concepts. Some of the owner-operated shops will go as far as completely dropping or replacing an item from their assortment if Toys "R" Us carries it.

These owners tend to spend inordinate amounts of management time looking for specialty and imported toys that the larger stores don't carry, and they count on customers who are willing to spend more for them.

—Mehul Patel

Top 15 Hard Lines Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Toys "R" Us, Paramus, N.J.	$4,970,000e	548
2	Tandy, Fort Worth, Texas	4,499,604	7,356
3	Circuit City, Richmond, Va.	2,366,901	157
4	Sherwin Williams, Cleveland	1,434,000	1,934
5	Barnes & Noble, New York	1,300,000	1,294
6	Blockbuster Entertainment, Fort Lauderdale, Fla.	1,133,150	1,582
7	Waldenbooks, Stamford, Conn.	1,064,000	1,268
8	Silo, Philadelphia	1,000,000e	232
9	Western Auto, Kansas City, Mo.	960,000e	551
10	Kay-Bee, Pittsfield, Mass.	926,786	1,116
11	Levitz, Boca Raton, Fla.	898,400	116
12	Pep Boys, Philadelphia	884,674	313
13	Highland, Plymouth, Mich.	860,800	50
14	Child World, Avon, Mass.	829,400	168
15	Herman's, Carteret, N.J.	682,000e	265

e = estimated

Source: Management Horizons/*Chain Store Age Executive* research

***Builders Square is representative of** the warehouse home center concept that has dominated the home improvement category.*

The 1990s: It's A Rough Time for Home Improvement Retailing

The $79.6 billion home improvement sector has had a rough time lately. Market conditions have been troublesome for more than a year now.

The housing market is down, significantly impacting the contractor segment of the market. And the recession has caused a slowdown in do-it-yourself remodeling work. DIY activity historically has offset the downturn in new housing.

Evidence of the situation: in the fourth quarter of 1990, inflation-adjusted home improvement center sales were actually below that of fourth quarter sales in 1987. In the prior three years, inflation-adjusted sales had grown roughly 20%. It was no accident that 1987 was such a turning point.

In that year, there were two pivotal events that would shape consumer spending for years to come. First, the stock market crashed. This sudden reduction in wealth induced many complacent consumers to start saving more of their income. Second, 1986 was the last year in which baby boomers graduated from college. In the following year, the number of new households started to decline. Fewer new households and greater personal savings meant less growth in home improvement expenditures.

> The recession has caused a slowdown in do-it-yourself remodeling work

Add to these structural factors the start of a recession in mid-1990, and the situation grows dim. Management Horizons does not foresee a significant upturn in spending until 1992.

Home centers represent the largest segment of the home improvement market in terms of sales volume, but the smallest in terms of stores. Hardware stores are the reverse of this, representing the smallest segment in terms of sales volume, but largest in terms of stores. Lumberyards fall between these two extremes, but are more similar to home centers than hardware stores (large sales volume, small number of stores). On average, the typical home center generated sales of about $3.5 million in 1989. This compares to $2.2 million for the average lumberyard and $0.5 million for the average hardware store.

Overall, home improvement retailing is a maturing business. Industry sales are cyclical, tied to the overall health of the economy and, specifically, the health of the housing market. Since household formations in the United States are slowing (due to baby boomers having formed households already), growth has become a market share game in which home centers are leading the pack, thanks almost exclusively to the emergence of the warehouse home center format.

Warehouse Home Centers: The Growth Segment

Pioneered in the late 1970s by Atlanta-based powerhouse, The Home Depot, the warehouse home center formula takes advantage of significant economies of scale to guarantee customers lower prices than traditional stores while offering superior selection, service, and a unique and excit-

ing shopping experience.

The Home Depot developed such a strong format that a number of companies (including Builders Square, HomeClub, and HQ) have tried to emulate the formula. To date, none of these other warehouse home centers have been able to approximate the level of financial success enjoyed by The Home Depot (which has an outstanding track record of financial performance). However, all have managed to build tremendous sales volume in their markets, largely at the expense of traditional home improvement industry players.

Since emerging as a retail format in the late 1970s, the warehouse segment of the home center industry has grown to represent nearly one-fourth of home improvement retail sales, a share that will undoubtedly increase as the leading players continue to expand over the next several years.

Evidence of the warehouse format's significance to home improvement retailing can be seen in a few sales numbers. The average home center generates sales of $3.5 million. The largest chains do better than average, of course, generating sales per store of about $10 million to $12 million.

By comparison, The Home Depot racked up average sales per store of $23.4 million in 1989 ($26.3 million in 1990), more than double what is typical for a large traditional home center operation and almost seven times the industry average. Impressive to industry observers. Frightening to industry participants.

On the profit side, the economics of the warehouse format differ significantly from traditional store types and, therefore, have been a key factor underlying the changes in the industry's overall declining profit margin picture.

Warehouse home centers have been able to develop significant economies of scale by purchasing large quantities from manufacturers and distributors. This enables the large home center chains to negotiate an attractive price which is passed on to the consumer. These lower prices boost turnover and ultimately profitability in terms of gross margin dollars generated, but result in lower operating profit margins.

This different economic model, combined with the competitive impact warehouse stores have had on traditional home improvement competitors (many companies have been seriously injured), have contributed to an overall profit decline in home improvement retailing. Median net profit margin for the industry fell from 3.3% in 1984 to 2.4% in 1989.

***Home Depot's average** store volume is $26.3 million.*

Top 15 Home Improvement Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	The Home Depot, Atlanta	$3,815,356	145
2	Lowe's, North Wilkesboro, N.C.	2,833,108	309
3	Payless Cashways, Kansas City, Mo.	2,226,000	195
4	Builders Square, San Antonio, Texas	1,890,000e	144
5	Hechinger, Landover, Md.	1,392,198	113
6	Homeclub, Fullerton, Calif.	1,260,000e	66
7	Wickes Lumber, Vernon Hills, Ill.	850,000	149
8	Grossman's, Braintree, Mass.	812,500	155
9	Menard's, Eau Claire, Wis.	800,000e	49
10	Sutherland Lumber, Kansas City, Mo.	776,000	92
11	84 Lumber, Eighty-Four, Pa.	767,000	342
12	Builders Emporium, Irvine, Calif.	600,000e	108
13	Scotty's, Winter Haven, Fla.	600,000e	165
14	Pay 'N' Pak Stores, Kent, Wash	503,000	102
15	Handy Andy Home Improvement Ctrs., Schaumburg, Ill.	415,000	52

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

The warehouse format impacts all segments of home improvement retailing because it holds strong appeal for both DIY/BIY consumers and contractors. This means that warehouse home centers are capable of (and are) taking market share away from not only traditional home centers, but also from hardware stores and lumberyards.

Essentially, the warehouse format is changing the ground rules in home improvement retailing; it is transforming the industry from a sleepy, inefficient, "good 'ole boy" business to a high-tech, professionally managed, more efficient retail machine. It is no wonder the traditional players have been scrambling to develop a workable response to this formidable competitor in order to survive.

Warehouse Influence On Industry Practices

The warehouse format has been a catalyst for redefining the technical aspects of home improvement retailing, specifically the arts of distribution, inventory management and sourcing. The warehouse is the low cost provider. All elements of the business are geared toward improved efficiency and productivity throughout the channel. This efficiency orientation has influenced the industry in several key areas:

- Supplier Relationships: The large home center chains, especially the warehouses, are developing more leverage with manufacturers. Manufacturers will be required to take on more of the costs in the channel (increase advertising and point-of-purchase support) in order to maintain existing relationships.
- Distribution Efficiency: There is decreasing dependence on the "middleman" in the home improvement center industry. It has been estimated that during the 1980s, the number of distributors declined by 50%, a process likely accelerated by the growth of the warehouse format. Increasingly, retailers are receiving merchandise directly from the manufacturers either at centralized distri-

bution facilities or at the store level.

● Systems Technology: Home center technology has made major advances during recent years through the implementation of barcoding and scanning; computerized plan-o-gramming, which is now used by many DIY retailers to aid in store design; computer aided design (as a customer service); and the growing sophistication of electronic data interchange linking retailers, distributors and manufacturers in a common network. EDI likely will reduce barriers to UPC implementation as well as aid in inventory tracking and price look-up.

● Labor Market: Because quality, knowledgeable salespeople are very closely tied to good customer service in the home improvement center industry, companies are taking measures to minimize the impact of the labor shortage. Examples include productivity incentives, better employee training, clearly defined career paths, higher starting salaries/wages and employee stock ownership plans. The Home Depot leads the industry in labor practices.

Not that all these changes have been brought about exclusively by the warehouse format. Trends in the economic environment and consumer markets have long been driving forces in the home improvement industry's evolution. The warehouse format has merely accelerated the pace of change.

***Hechninger has turned to** its Home Quarters Warehouse format for growth.*

All Is Not Lost

Despite the rapid growth of the warehouse format, the home improvement business does remain a highly fragmented industry made up of a large number of small players. According to U.S. government Census figures, independent chains represented 93.6% of firms, 68.2% of stores and 46.0% of industry sales in 1987. Chains with 10 or more stores represented only 0.5% of the total firms and 19.1% of stores in this industry, but they account for 35.7% of total industry sales.

> The home improvement business remains a highly fragmented industry

Surprisingly, the 10 leading companies together accounted for only 19% of industry sales in 1989. This represents a small increase from 15% of sales in 1984. And because several of the 10 leading companies are warehouse store operators generating tremendous per store volume, store share accounted for by the 10 leading companies actually declined from 4.3% in 1984 to 3.4% in 1989.

Even in view of its perceived industry dominance and rapid growth, The Home Depot, with sales of $3.8 billion in 1990, still represents less than 5% of industry sales and less than 1% of industry stores. This leaves a lot of room for other players in the market.

It will be tougher in the years ahead for traditional home improvement retailers to maintain market share, especially in markets occupied by warehouse stores. However, there will be opportunities for retailers to successfully and profitably serve customers in non-warehouse environments since all needs cannot be met by this format.

As an example, The Home Depot offers an extremely broad selection of home improvement merchandise, but it does not cover all the bases. It is a mass marketer of mass market quality home improvement merchandise. Where will customers go for better quality products? Where will they go for quality home decorating/fashion merchandise? Where can they shop without being intimidated by the sheer size of a retail location?

Another example: the warehouse format requires a large trade area population to support the volume necessary to achieve and maintain profitability. There are many good secondary and tertiary markets which will never be able to support a warehouse store, but are ripe for a strong home improvement offer.

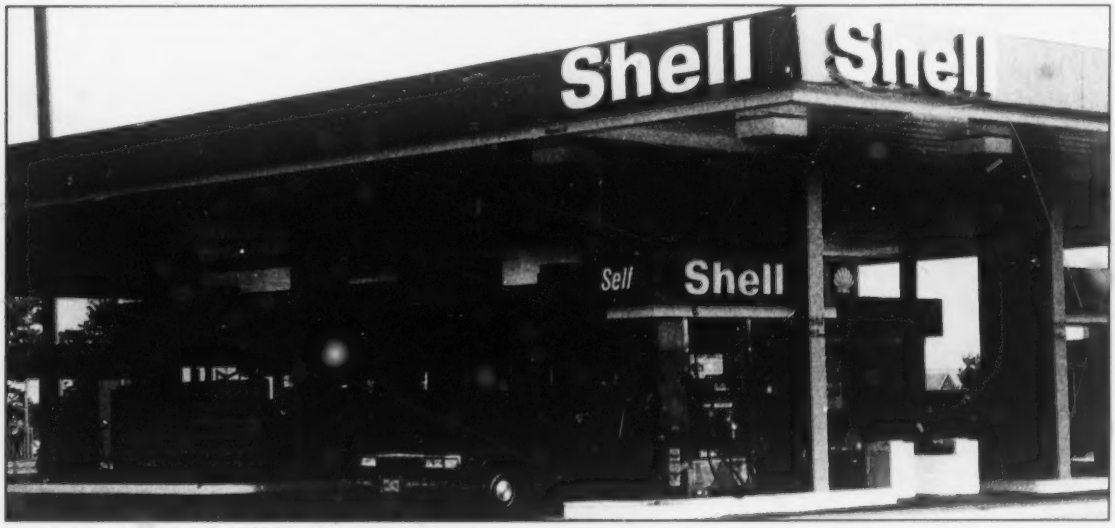
The challenge for traditional home improvement retailers will be to find pockets of opportunity, develop winning strategies to exploit these opportunities, and execute the strategies well. All components must be present to afford growth and profitability in the 1990s.

Industry Outlook

When the economy recovers in 1992, so will the home improvement industry. Although considerable pent-up demand will fuel growth next year, it will not match the industry performance that followed the last recession eight years ago. For demographic reasons, employment growth and household formation will be much lower. In addition, personal savings will continue to rise.

On the positive side, though, middle aged baby boomers are becoming more settled in one location, and are showing a greater interest in "fix-up" projects and home decor. This which will help sales at home improvement centers.

—Kimberly D. Hendrix



Gasoline convenience stores ('G-stores') have hurt the traditional 'C-store' chains.

Gasoline Fuels Growth of Convenience Store Industry

Some convenience store companies that survived the 1980s may reflect upon those years as the "decade of problems." Yet now they can look forward to the 1990s as a "decade of change and opportunity."

Confronted by a host of demographic, financial, and competitive developments over the past few years, the "C-store" (traditional convenience store) segment of the industry is seeking new avenues of growth, while the "G-store" (gasoline convenience store) segment has already found the road to profits.

Total convenience store industry sales grew at an annual rate of 13.2% from 1984 to 1989, reaching $93.2 billion by the end of the decade. However, this robust growth rate was driven more by an increase in gasoline sales than by convenience merchandise, as many traditional C-stores added the higher ticket category of gasoline in the 1980s to counter the competitive attack of petroleum marketers.

Some leading traditional C-store operators, represented by nameplates such as 7-Eleven and Circle K, have been plagued with increasing burdens of debt and highly visible bankruptcy filings. Many now suffer from a lack of capital to update tired stores trapped in unsafe locations.

> For men, C-stores are the most frequently shopped store type

These troubles have left some of the "old model" C-stores vulnerable to intensifying competition on two fronts: 24 hour supermarkets and, more importantly, G-stores.

When consumers demanded shopping convenience in the 1980s, major supermarket chains responded with 24 hour service. One supermarket retailer, El Monte, Calif.-based Vons Cos., even built convenience store sections within several of its units.

The greater competitive threat occurred when major oil companies initiated country-wide conversions of their name brand gas stations to gasoline convenience stores. By 1989, this segment represented almost 40% of the 83,000 units in the industry. This percentage is expected to increase as the deep pockets of petroleum giants allow for more aggressive expansion.

Targeting the Local Market

Management Horizons finds that about 24% of all households shop convenience stores at least once a month. For men, they are the most frequently shopped store type, with 55% shopping them at least once a month.

Heavy shoppers of convenience store outlets are usually employed in pink or blue collar occupations and reside in non-urban, lower to middle income areas.

Because the industry's traditional consumer market of 18- to 34-year-olds is declining in number, forward-thinkers are updating their appeal to target more lucrative age groups such as those over 45, or ethnic groups including Hispanics and Asians.

As the market clout of these consumers continues to build during the 1990s, the industry will be forced to address issues relating not only to merchandising and store formats but also those concerning health and safety needs and cultural differences.

Smaller, regional chains have adopted niche marketing to cater to local market needs. For example, the White Hen Pantry chain in the Chica-

go area offers a wide selection of fresh and prepared foods, positioning itself as a "neighborhood food store." Jackson, Mississippi-based Jr. Food Marts offers its signature freshly Creole fried chicken prepared to local tastes.

The major oil companies are also experimenting with localized marketing by testing facility sizes with different footprints by market type. These include store formats geared to specific urban and suburban neighborhoods as well as roadside units off expressways.

A Full Menu of Services

Convenience store operators have recognized that foodservice offerings attract more females, older consumers, and those with higher incomes. In addition, food items provide higher margins and profits per square foot than other in-store merchandise and potentially draw customers from fast food and supermarket competitors.

Some traditional C-stores have capitalized on foodservice profits through joint ventures, such as 7-Eleven's branded partnerships with Dunkin' Donuts.

For petroleum marketers, foodservice helps to attract the 20% to 30% of G-store customers who do not buy gas. Chevron operates food marts in a significant number of its gas stations nationwide as does Shell.

Amoco's Split Second stores in the Tampa, Fla., area feature in-store seating with a full menu of freshly prepared foods, while Arco AM/PM Mini Marts achieve nearly 18% of total inside sales from foodservice.

Besides foodservice, convenience store operators are adding a variety of other services, including automated teller machines, car washes and fax machines, to attract the time-pressed consumer. In addition, the industry's outlets sell more lottery tickets than any other kind of business, with over half of all units selling tickets in 1989.

A service expected to gain wide consumer approval is unattended automated fueling, which allows customers to quickly fill up and go. However, some operators are wary because this offering eliminates the need for customers to enter the store, thereby losing the potential for add-on sales.

Foodservice attracts female, older and wealthier consumers.

Top 15 Convenience Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Southland Corp., Dallas	$8,410,000	6,500
2	Circle K Corp., Phoenix, Ariz.	3,715,000	3,859
3	Emro Marketing, Springfield, Ohio	1,287,500e	1,700
4	National Convenience Stores, Houston	1,062,183	1,090
5	CFM Franchising Co., Rosemont, Ill.	900,000e	1,120
6	Dillon Companies, Hutchinson, Kan.	863,000	959
7	Dairy Mart, Enfield, Conn.	809,000	1,189
8	Cumberland Farms, Canton, Mass.	800,000e	1,200
9	Racetrac Petroleum, Atlanta	727,000	310
10	BP America, Cleveland	600,000e	850
11	QuikTrip, Tulsa, Okla.	584,000	287
12	Wawa, Wawa, Pa.	550,000	476
13	SuperAmerica, Lexington, Ky.*	543,000	601
14	Crown Central, Baltimore*	260,000	606
15	Conoco Oil, Houston	182,000e	475

e = estimated
*Sales figures do not include the sale of gasoline
Source: Management Horizons/*Chain Store Age Executive* research

One solution is a drive-up window, such as the prototype being tested in the Rocky Mountain and Plains states, where severe weather conditions discourage entering retail facilities. The windows are often combined with menu boards and intercoms at gas islands to allow customers to place food orders while filling up. Two Market Express convenience stores in Utah do 15% to 20% of their business in drive-up sales.

Impact of Legislative and Environmental Forces

Pending legislative actions could have significant impact if instituted. The number one issue is proposed legislation requiring petroleum marketers to have underground storage tank pollution liability insurance. The Americans with Disabilities Act will affect the industry through employment-related requirements and guidelines to provide equal access.

Other legislative actions include beer/gas bans, safety legislation to protect clerks, government mandated benefits, and health inspections of food operations. In addition, local deposit and recycling laws involving mandatory separation of goods and collection of sorted recyclables have already been implemented in many parts of the country.

While the convenience store industry averages 32% gross margins on general merchandise, total gross margins are reduced to about 22% by the slim margins on gasoline. The weaker gross margins are offset by high inventory turnover rates for in-store merchandise, which are in the range of 15 to 17 times per year.

Despite such high turnover rates, the industry has made little use of point of sale technology to measure inventory performance. It lags behind most other retail segments in the development of merchandising information systems to increase front end efficiency, improve customer service, and provide critical input for managing inventory.

Industry Outlook: Growth Linked to G-Stores

While many traditional C-stores struggle to overcome their dated image and identify a clear strategy for today's market, G-stores appear to be capitalizing on everything the old model lacks: cleanliness, convenience, safety, friendliness, and an appeal to men and women alike.

Because economic recovery and relatively low gasoline prices will boost automobile travel and increase patronage of gasoline stations, explosive growth opportunities exist for those G-stores that can successfully combine convenience merchandising with the established draw of name brand gasoline. For traditional C-stores, success will come only by becoming more like G-stores or providing a strong fast food offer.

—Teresa D. Williams